

**BUDGET REFERENCE  
MANUAL FOR  
BULGARIA**

Prepared for

Prepared by

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## 1.0 INTRODUCTION

As local governments in Bulgaria begin to expand their role in democratic governance, elected officials and municipal staff are searching for new tools to manage local affairs in an effective and open manner. Few tools are as essential as the budget process, through which decisions are made about the best use of public resources. While formerly a tool primarily for financial control to follow the dictates of the state, the modern budget process is now a tool for management and communication. It allows elected officials to set goals and policies, department heads to improve service performance, and the municipal government to be accountable to the public.

The Municipal Budget Law in Bulgaria requires that municipal budgets be based on judgements about the efficiency and effectiveness of municipal services. This is the primary objective of Service-Based Budgeting (SBB) which introduces information about service results into the budget process and systematically applies this information to support budget decisions. SBB attempts to link the municipality's annual resource allocation decisions more closely to its multi-year planning process, such as a strategic plan. It also offers more opportunities for citizen participation in municipal resource allocation. Finally, SBB serves to increase accountability within the municipal administration by making explicit what department staff are expected to accomplish with the resources they are provided.

### ***Purpose of this Manual***

This budget reference manual complements the budget preparation manual that municipalities will use as they implement SBB within their cities. The budget preparation manual provides practical guidance and tools for using SBB. The reference manual describes the underlying ideas and concepts on which SBB procedures are based. This manual also goes beyond basic SBB concepts and discusses elements which leads to more efficient and better budgeting practices within a municipality. The remainder of this manual consists of five chapters. Chapter two, *Municipal Budget Reform*, explains why traditional budgeting practices need to change, and discusses the elements of service-based budgeting—customer orientation, performance management, and local decision making. Chapter three, *Budget Preparation*, explains in detail the concepts behind the forms shown in chapter two of the budget preparation manual (Tools of Budget Preparation). Chapter four, *Budget Analysis*, describes the principles of fiscal analysis that should be used by departments, enterprises, and community organizations as they prepare their base budget and enhancement requests. It covers revenue and expenditure forecasting, activity based costing, off-budget resources, and municipal enterprises. Chapter five, *Budget Review and Adoption*, discusses the process of budget review and adoption, and briefly covers guidelines for successful budget presentation. This chapter also deals with increasing citizen involvement in the local budget process. The final chapter, *Budget Implementation and Management*, deals with implementing and monitoring the budget after it has been adopted.





The appendices in this manual primarily consist of state and local laws related to budgeting, administration, and accounting. They also include some sample program services, and a glossary of terms used in the budget preparation and budget reference manuals.

### ***How to Use the Budget Reference Manual***

The reference manual should be used in conjunction with the preparation manual, since it provides a greater explanation of the tools and concepts introduced in that manual. Although the reference manual is considerably longer than the preparation manual, it does not attempt to address all possible questions that may arise in introducing and modernizing financial management.

The municipality of Razgrad initiated SBB in 1998. Several exhibits in this manual are based on the forms actually used by Razgrad. Therefore in addition to complementing the budget preparation manual, the reference manual includes several additional sample exhibits which a municipality can either use as templates or modify to suit its needs.

## 2.0 MUNICIPAL BUDGET REFORM

Bulgarian municipalities essentially use line-item budgeting that is designed to conform to central government accounting classifications. This type of budgeting does not enable an understanding of the programs,<sup>1</sup> activities or services provided by the city. Even though it distinguishes between capital and operating expenditures, the absence of multi-year budgeting limits the ability of local governments to plan for capital expenditures. Once central government grants and transfers are determined, the amounts are added to the budget. The cities have limited authority to increase their own source revenues and thus rarely fund new activities.

### Razgrad—The Need for Change

Three years ago, the Municipality of Razgrad under the leadership of Mayor Venelin Uzunov and Vice Mayor for Finance Stanka Angelova, began reforming its budget process to make it and the budget document open and accessible to the citizens. One of the main reasons for this was the city's need to "do more with less." The city faced employment dislocations, production declines, population losses, and a plethora of unfinished projects begun by the previous administration. The mayor and his management team decided that they wanted to make definite but limited promises and accomplish those objectives. In addition, the leadership team knew that it needed to make some hard decisions and understood the value of both better information and citizen support to make these decisions.

The finance department plays a coordinative role throughout the budget process, while decision making is primarily the function of the general assembly and various committees. There is no multi-year forecasting, budget analysis, performance measurement or monitoring. As local governments in Bulgaria begin to expand their role in democratic governance, elected officials and municipal staff are searching for new tools to manage local affairs in an effective and open manner.

### ***Modifying Traditional Budget Patterns***

The reform occurring in Bulgaria requires that municipalities discard their traditional approaches to municipal budgeting management in favor of more modern techniques.

### Elements of Budget Reform

In undertaking budget reform a city must:

- Obtain commitment
- Organize the budget process
- Develop forms and instructions
- Assign responsibilities
- Establish time frames
- Train staff
- Create and maintain an adequate data base
- Develop knowledge of functional areas
- Assemble new budget format
- Establish reasonable expectations
- Work with the legislative body

While formerly a tool primarily for financial control to follow the dictates of the state, the budget process is now a tool for management and communication. It identifies goals and objectives; links community needs, trends, and government priorities; emphasizes what the government does and what it accomplishes; establishes comprehensive performance measures; considers alternatives, their costs, and effectiveness; establishes different levels of service for different funding levels; projects and schedules the work to be done; and compares budget requests with prior actual expenditures and accomplishments. All of the above leads to a better use of public resources and

helps make government accountable to the public.

<sup>1</sup> Throughout this document, a "program" is defined as a group of related activities performed by one or more organizational units for use of accomplishing a function for which the government is responsible.

#### Budget Reform in Razgrad

The Municipality of Razgrad developed and published its first revised municipal budget for fiscal year (FY) 1997. The FY1997 budget document provided basic information about the municipality and its organization and served as a public expenditure plan. It served as an initial tool for decision making by city council and for sharing information with citizens.

The Razgrad budget for FY1998 was expanded to include additional information about the municipality and more detailed analysis (emphasizing multi year comparisons) of revenue and expenditure categories. Budget reporting took on a more functional appearance and introduced principal performance indicators for service activities. The graphic presentation of the document also improved, and budgetary information was distributed on a wider basis than in previous years through press releases and in public libraries.

Many cities would like to improve the quality of life for citizens, increase economic activity, or enhance city conditions or facilities. The overwhelming majority of activities, however, are designed to deliver basic municipal services. In most cases, cities are the only providers of basic services, and city officials sometimes forget that their primary function is efficient and timely service delivery. Recognizing the citizen as customer is a key element in contemporary budget practices. Service delivery management is ultimately judged on its:

— Efficiency—Are resources being utilized in the cost efficient way?

— Effectiveness—Are the efforts properly targeted to solve the problem?

— Environment—Do the activities return to the social and economic systems as much as is withdrawn?

— Equity—Is there basic fairness in the design and delivery of the services?

In meeting the above objectives modern budgeting practice comprises of four main elements which are as follows:

- **Organization.** The municipality must designate channels for budget execution and control. Budget reform involves dividing and distributing the work among individual and groups of employees, assigning specific tasks to the staff, establishing rules for relationships, and delegating various powers. Modern municipal management encourages initiative, problem solving, and work restructuring. The extensive involvement of employees and department heads in discussing goals and setting objectives is a part of this modern management technique.

- **Execution.** Successful budget execution requires communication and coordination. A combination of verbal and written communication sets programs and plans into motion and informs others of the municipal council's actions on the annual budget. Traditional examples of communication are written orders, regulations, decisions, and agreements. Modern management, however, emphasizes interactive communication, involving both the staff and citizens much earlier in the process so that they can participate in the decisions and the ultimate results. Budget execution also requires coordination of the efforts of various departments and institutions so as to minimize controversies and conflicts and to increase genuine cooperation. Effective coordination and voluntary cooperation are tied to effective communication.
- **Control.** The budget is more than just a expenditure plan defining programs, their costs and their funding. Control consists of analyzing results and the extent to which the objectives have been efficiently and effectively achieved. When desired results are not realized, performance and the organization are analyzed for improvements. In modern municipal management, control involves the setting of organizational parameters within which operational managers direct results-oriented behavior. These managers are ultimately responsible for service delivery. Budget control can be exercised in various ways. The typical form of control—command control—involves approvals through a “chain of command” (i.e., supervisors) for each specific action. Control through designated scopes of responsibilities is more consistent with service-based budgeting.
- **Leadership.** As the budgeting process becomes more interactive, it is important to redefine the roles of the stakeholders: the mayor, the municipal council, the finance committee, the municipal administration, the deputy mayor for finance and economic development, and the operational managers of the departments and enterprises:
  - Mayor: As the elected leader of the municipality, the mayor serves as a central point for citizen concerns, ideas, and expectations. Through both formal and informal means, the mayor articulates the city's mission. The mayor is not only the visionary leader but also the head of the municipal administration, which is charged with successful execution of the budget adopted by the municipal council.
  - Municipal Council: As the legislative body responsible for the process and content of the annual budget, the council is ultimately responsible to the electorate for the performance of policy initiatives.

- Finance Committee: This municipal council committee provides in-depth analysis and oversight of the budget process to the council and reconciles the proposed budget with the fiscal conditions of the city.
- Municipal Administration: This is the mayor's team that manages the delivery of services promised in the adopted budget.
- Deputy Mayor for Finance: The deputy mayor provides direction to the budgeting process and supports the municipal administration in establishing service delivery requirements and expectations in keeping with financial constraints.
- Operational Managers: These managers are responsible for professional input and execution of the budget within their areas of expertise.

### ***The Management (Strategic) Plan***

Modernizing budgeting practices implies a shift away from control orientation and budgeting inputs, to a focus on outcomes (results) and accomplishments. Budgeting is such a complex process that budgets are usually a combination of base, line-item, program or performance budgets. The main objective in undertaking budget reform is to make the process more efficient and effective irrespective of the type of budget. One of the tools used to achieve this is the management plan, which serves as the link between available resources and outcomes. The management plan must be clear, focused, and consistent. Furthermore, it should fully illustrate the issues facing departments and the mayor's and municipal council's strategic direction. If the guiding principle for the base budget is a "constant supply of service" (each program will provide the same aggregate level of service next year as in the current year), the management plan should reflect this, unless there have been board-directed changes or efficiency increases.

#### **Management Planning**

A management plan describes how the municipality uses and allocates all available resources in terms of expected outcomes and accomplishments. It therefore serves as written justification to the citizens and the municipal council of what the city government requires to serve its citizens.

The plan should include the following program information:

- Mission statement
- Description
- Achievements/Accomplishments
- Goals
- Objectives
- Performance indicators

Management planning provides the opportunity to step back from daily operations to examine and review what the city does and how it does it. This is the time to take a fresh look at structure, operations, processes, and outcomes, and to strategically plan and do multi-year forecasting of programs and services. As described below, management plans benefit department and program staff, the municipal administration, and citizens (i.e., the customers):

- **Benefits to Department and Program Staff.** Department and program staff benefit not only from the document itself but also from the process of preparing it. Staff can use the management planning process as an opportunity to examine programmatic resource requirements, and to ask fundamental questions about program effectiveness. By participating in the review and improvement of a program's activities, staff gain a better understanding of the program's goals. Management plans provide program managers and staff with benchmarks to use in evaluating the programs. Used as accountability and prioritizing tools, management plans encourage innovation and improvement.
- **Benefits to Municipal Administration.** The mayor and municipal council make the final resource allocation decisions. For fully informed decisions to be made, they must access and distill a large amount of critical and relevant data. Management plans can help them systematically review the operations of existing and proposed municipal programs. Clearly stating the relationships among resources, processes, and outcomes allows the municipal administration to make sound decisions regarding management, budgets, policies, and allocation of limited resources.
- **Benefits to the Customers.** Finally, a management plan educates and informs "the customers": the citizens, municipal council, operational units, and internal staff. The plan illustrates that public revenues and other resources entrusted to the municipality are being used efficiently and effectively to meet citizens' concerns and specific goals. Management plans provide accountability in the form of quantifiable proof that the city regularly achieves or surpasses its goals and that the citizens are receiving quality service.

The management plan comprises a city mission, as well as department and program missions. It specifies goals and objectives and performance indicators for each program. Exhibit 2-1 shows the contents of a management plan which are discussed in greater detail below.

### **The City Mission**

The preliminary step in service-based budgeting is to define the city mission. The

underlying principle of the city mission is to bring together the municipality and the citizens/customers. Taking into consideration what the citizens want, the mayor or municipal council determine the municipality's goals and the approach for achieving them. The procedure for establishing the city mission must allow for ongoing dialogue between the public and city officials. Government officials must propose ideas and listen, adjusting service delivery plans as necessary. The citizens also must propose ideas and listen, because municipal officials may have a more comprehensive view of municipal needs and available resources than they do.

Prior to the beginning of the budget year, the municipality must establish its annual goals. (The budget sets forth the city's approach for achieving these goals and the roles of the various participants.) Setting annual goals is a political process that stems from sociocultural traditions and the local leadership's political agenda. The city of Razgrad has experience with annual goal setting. The municipality's first strategic planning effort looked principally at physical and infrastructure needs and established an action plan for the year.

The Mayor's FY1998 goals presented in Exhibit 2-1 are the result of that effort.

### **EXHIBIT 2-1 Department Information**

The following information is required from each department for the management plan (*i.e., department mission statement, description, situational analysis, and organization chart*):

- **Department Mission Statement (one per Department).** The beginning of the budget process is the time to develop or modify the department's mission statement, especially if changes are expected. The mission statement must reflect the department's fundamental and core purpose, and should be broad enough to encompass all program goals, objectives, and outcomes. The mission statement should reflect purpose rather than programmatic structure—a statement that merely

lists a department's structural components provides little insight into why it should continue to exist.

#### **Example of a Mission Statement** Social Welfare Department

Enhance the quality of life for Razgrad residents through programs that promote the economic and social self-sufficiency of families and individuals, and safeguard vulnerable children and adults.



The preceding example clearly states the department's main purpose: to protect families from economic or social disintegration. This mission is reflected in the description of each program in the department:

- **Department Description (one per Department).** The department description is the narrative link between the department's mission and its program structure. It should be brief and program-based and should include any planned program changes. In essence, the description should describe how the department accomplishes its objectives in pursuit of its overall goals. If intergovernmental agencies or the private sector play a significant role in the administration or operation of a department's programs, their role should be included in the department description.

### Example of a Department Description

The Office of Mapping and Geographic Information is responsible for maintaining land-used (mapped) information. The office accomplishes these tasks through the operation of the following programs: base project support, parcel map and addressing land records maintenance, land records map and database development, and public information/copy center.

- **Situational Analysis (one of each per Department).** A situational analysis describes both internal and external issues that will affect the department over the next year. It therefore should be developed early in the management planning process. The situational analysis also provides an appraisal of the current and near-term conditions in which the department must function. There are four components to the situational analysis: environmental scan, customer service considerations, departmental operations, and critical success factors.
- **Environmental Scan.** The environmental scan gives departments the opportunity to analyze the implications of certain trends—demographic, economic, sociological, technological, and legislative/political:
  - *Demographic Trends:* How will the department be affected by projected population changes? Will there be changes to the makeup of the population that require specific programmatic attention? Can the population changes be accommodated within existing facilities and programs?
  - *Economic Trends:* What are the service implications of forecasted economic activity? Will the economy affect service demand? Will it change resource availability?
  - *Sociological Trends:* What social trends drive the department's service demand? For example, how does the growing number of "idle teenagers" or the "graying" of the existing population directly or indirectly affect service demand?
  - *Technology Trends:* Are there technological changes in engineering, construction, or materials that will impact services or processes? With technology advances can the department keep up?

- *Legislative/Political Trends:* What political changes will occur and what do they mean? (Although these trends are difficult to predict, departments should attempt to forecast the more likely changes and describe how they will prepare for them).
- **Customer Service Considerations.** Service-based budgeting has a strong emphasis and focus on customers. Who are the department's customers? What are their requirements and service needs? Are there conflicting customer needs? What can customers reasonably expect from the department? How satisfied are customers with the service provided and how is their satisfaction measured? Which other agencies (internal or external) provide the same or a similar service? How can coordination with these other agencies be measured?
- **Departmental Operations.** What are the strengths and weaknesses of the department's structure and resources? What is the department's ability to adapt to unforeseen crises? Some of the following areas may be relevant:
  - *Staffing:* Do staffing levels allow objectives to be achieved? Are there relevant issues regarding vacancies? Do job descriptions need to be changed to meet objectives?
  - *Structure:* Is the program structure effective? Might there be changes in the structure over the next year?
  - *Operations Management:* Does staff have enough of management's time? Do supervisors have sufficient time to provide oversight or handle other administrative duties? Can this be helped with training or technology?
  - *Facilities:* Are facilities adequate and in acceptable physical condition? Are there program delivery issues associated with facilities?
  - *Equipment:* Is there enough equipment and is it the right type? Is it fully operational?
  - *Technology:* Is the department ahead of the technology curve, riding the crest, or falling behind? Do automated systems help or hinder performance? Are automation and technology spread throughout the department or are there overlooked areas? Do staff have enough training? Is there enough support for automated systems?

- *Turnover/Absenteeism/Morale:* How do these factors affect service delivery? Are there any problems and what is the department doing to address them? How long has this been the trend and is it growing? Innovation: Does the department welcome innovation? How has it been creative?
- *Major Successes:* What are the major successes and what was learned from them?
- *Major Failures:* What were the major failures and what was learned from them? What has been or could be changed to avoid future failures?
- *Communication:* How effective is communication within the department? How effective is communication with other departments? How can communication be improved? Are there any public information issues?
- *Overhead:* What resources are used in departmental overhead or other internal requirements (including management planning)? What has been done to reduce it? Is there anything else that can be done?
- **Critical Success Factors.** The management plan should include a brief description of the internal or external factors that would prevent a department from achieving its program goals. Budget cuts and new program requirements endanger most goals, but other factors may be critical to the department's success such as political support to implement tough decisions/policy; slow implementation of the program; and lack of institutional capacity.

### Example of Department Critical Success Factors

factor critical to the success of this program is the level of support required for the Youth Employment Initiative. A support level similar to last year's would endanger this office's ability to achieve progress towards other goals.

- **Organization Chart (one per Department).** Departments must submit an organization chart with their management plan. The chart must be program-based rather than structure-based and must represent the entire department. The following information must be included:
  - Job classification
  - Official position title
  - Number of full-time employees

[Note: The information may only be aggregated if two or more employees have the same job classification and official position title in the same program (e.g., 20 primary school teachers)].

### Program Information

The following information is required from each program for the management plan (i.e., program mission statement; description; previous years achievements/accomplishments; goals; and objectives):

- **Program Mission Statement—Optional (one per Program).** Some programs may need a specific mission statement if the relationship between the program and the department mission statement is not obvious. Departments may include program mission statements at their discretion.

#### Example of a Program Mission Statement

The mission of the Food Inspection Program is to ensure health standards are maintained in restaurants, bars, and café's that serve the public or provide meals in public residential programs.

- **Program Description (one per Program).** The program description should be a brief narrative of activities within the program, and serve as a link between the mission of the department and the program goals, objectives, and performance indicators. If any intergovernmental agencies or the private sector play a significant role in administering or operating the program, this should be included in the program description. If the program must meet national norms or mandated quantifiable levels of service, that also should be referenced here. Additionally, the program description should reflect any changes in the structure or focus of the program.

Fire-Rescue Program delivers emergency and non-emergency fire, rescue, and emergency medical services to citizens. The program also provides support for the approximately 800 volunteers who are distributed in 17 independent companies: 8 fire companies, 5 fire-rescue companies, and 4 rescue companies. This program is closely associated with the Fire-Rescue Commission, which represents volunteer services and establishes system-wide goals and policies enabling the companies to provide the most efficient, cost-effective service possible.

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- Previous Year’s Achievements/Accomplishments.** This section lists the objectives the program achieved in the previous budget year. It consists of bulleted items simply describing the more significant results of program efforts and activities. These achievements should be tied directly to the previous year’s program goals, objectives, and performance indicators, and used to develop the upcoming year’s goals and objectives.
- Program Goals (two or more per Program).** The program goals should provide greater detail than the program description on how the program will achieve the department mission. Goals should be broad (but not vague or without meaning), long-term, clear, simple, and concise. They should state a program’s desired long-term result (outcome), and not change from year to year. Only a vital few goals should be identified, encompassing the program’s multi-year vision. Goals are often non-quantifiable, and logically connected with the performance indicators that will be measured.

### Examples of Program Goals

- Minimize unemployment among disadvantaged youth.
- Provide safe drinking water for all city residents.
- Provide adequate recreation activities for youth.

- Program Objectives**  
 (one or more per goal). In some ways,

clear program objectives are the most important information in the management plan. The objectives articulate what customers/citizens will get for the taxes and fees they pay. They explain the program’s actions for the budget year. There must be a clear relationship between the objectives and the department mission statement. Objectives should clearly demonstrate desired, challenging, and achievable outcomes rather than inputs or activities. The performance indicators should be directly connected to the objectives.

### Examples of Program Objectives

- Assist 5 percent of heads of household in obtaining full-time employment by the end of the budget year.
- Reduce student absenteeism to accomplish an attendance rate of 92 percent average daily attendance by fiscal year X.

### Performance Indicators

The performance of government is of interest to its citizens because they expect their taxes to be used efficiently in providing the highest level of public services. The government in turn has the responsibility to ensure that programs meet their stated objectives and are cost-effective. By measuring the level, efficiency, and outcome of a program's efforts, performance indicators can guide resource allocation decisions, and communicate to the public the goals and objectives of public programs.

Four types of performance indicators are usually considered: input, output, outcome, and efficiency. Input indicators address the amount of resources (dollars, employee-hours, etc.) used in providing a particular service. Output indicators describe the activities undertaken in providing a service or carrying out a program (e.g., the number of arrests or the number of responses to fire alarms). An advantage of input and output measures is that they are generally easy to define and the necessary data is more readily available; however, they provide only limited insight into the question of whether the program is accomplishing the goals for which it was designed.

Outcome indicators are used to evaluate the quality and effectiveness of public programs and services. For example, an important objective in providing police protection programs is to reduce the number of crimes committed; hence, a relevant outcome indicator is the number of crimes committed per capita. A fire suppression program usually has the objective of minimizing losses due to fire. An outcome indicator for this program might be the leva value of property lost due to fire. Outcome indicators also provide an indication of how effectively services are provided. The percentage of community residents that feel that police respond fast enough when called is an example of service effectiveness measure. Outcome indicators are sometimes difficult due to the following reasons: (1) conflicting goals for some programs and services, (2) inability to determine a direct correlation between the service provided and the results being measured, and (3) costly and time consuming measurement techniques.

A final type of indicator is efficiency, which relates inputs, or resources used, to units

of output or outcome. Examples of efficiency indicators are employee-hours per crime solved, or fire department expenditures per leva 500,000 of property protected. When efficiency indicators are evaluated over time, they provide evidence of trends of productivity. This is especially crucial information for resource strapped governments that are trying to provide services of higher quality or quantity with the same level of resources. (Performance indicators are an important component of SBB. For a more detailed discussion on this topic see *Performance Management*, discussed under elements of Service Based Budgeting).



**Exhibit 2-2**

**MAYOR'S BUDGET GOALS FOR 1998**

**RAZGRAD MUNICIPALITY**

- Ensure proper employment for all budget units in conformity with the adopted 1998 budget for Razgrad Municipality.
- Complete the repair of "Ekzarh Iosif" Secondary Language School.
- Implement the program for providing medical equipment and reconstruction of health care establishments.
- Rise the awareness of city and village inhabitants with regard to maintenance of residential areas and green spots through a series of successive actions and events.
- Establish an optimum scheme of transport services for citizens and implement efficient control of transportation schedules, service delivery culture, service tariff rates, etc.
- Provide conditions and prerequisites for the full operation of the established public councils, which are to become a partner to local governments in solving municipality issues.
- Establish a municipal commercial security company for agricultural property, summer-house zones, and economic entities belonging to citizens.
- Ensure technical conditions for starting the construction of a network of pipe-lines for providing gas to households.
- Implement the privatization program aimed at ensuring the implementation of the investment program for the most important municipal sites: completion of the ring-road central bus-station - "Orel" residential district; reconstruction of Parkova street; further construction of the new drama theater and implementation of vertical planning around it; reconstruction of the municipal market place; vertical planning, welfare works, construction of sewerage and of the infrastructure in all municipal settlements.
- Reconstruct, repair, and restore cultural monuments—"St. Nikolai" church, "Ibrahim Pasha" mosque.
- Participate in international programs to find alternative financing for municipal activities and events:
  - The British Know-how Fund program and Phare "Remodel" project for the livestock market place in Ghetzovo;
  - The brother cities program with Armaa, Northern Ireland; funding for the reconstruction and repair of the clock tower;
  - With the assistance of the U.S. Agency for International Development Local Government Initiative (LGI), financial support and development of a pilot project in Razgrad on the stages of budget payment and publicity in municipal finance management, which shall be submitted as a model to the other municipalities in our country.
- Under LGI, involve experts from the public administration, municipal enterprises, and budget units in 1-week training courses for acquiring management skills.
- Under LGI, finance a project to establish a regional business information center.



### ***The Elements of Service-based Budgeting***

Three elements—local decision making, customer orientation, and performance management—make up service-based budgeting (SBB). SBB focuses on demand rather than supply, programs rather than organizational units, outputs rather than inputs, and performance rather than effort. SBB looks at both real costs and how expenditures relate to the actual delivery of goods and services.

Most goals are achieved by action at the local level. The city must define its own local requirements and develop strategies to meet its goals and objectives within the limits of national laws and policies. Operational managers must be held accountable for delivery of services and program performance. Empowering operational managers to make program delivery decisions within municipal policy minimizes bureaucratic conflict and waste. The city must also recognize that citizens are their customers, and that providing services that citizens need and want is the primary function of the government. Finally, the city must focus on results of its activities through “performance management.” This requires knowing the real cost of providing a service, the demand for that service, and the results achieved by the service.

#### **Local Decision Making**

Under SBB, the municipal management team and all operational managers are responsible for delivering services either directly to the public or by units that serve the public. This applies to all units, whether they receive on-budget or off-budget funding through direct allocation of municipal funds or a subsidy, and includes budgetary units, municipal companies, municipal enterprises, and external providers such as franchises and contracts.

To ensure that operational managers are held accountable for their department’s service delivery, a certain organizational framework must be established by the municipal management team:

- The organization chart must reflect the program components of each operational unit. (Appendix H presents the revised organization chart for Razgrad.)
- The manner of accounting for expenditures must tie costs to direct and indirect service delivery programs.
- The desired results of direct and indirect services must be identified for each program.

- Each operating unit must prepare a “management plan” that explains simply and clearly what each unit is expected to achieve and how the services are going to be delivered.
- Each unit must prepare a “program description” for each service delivered. Exhibit 2-3 provides a template for the program overview, and several examples are included in Appendix H.

Exhibit 2-3  
Program Description Template, Razgrad Municipality

<b>Service:</b>  <i>Identify and describe service</i>	<b>Objectives:</b>  <i>Describe the reasons for the service</i>
<b>Legal Framework</b>	
<b>Central Government</b>  <i>Identify enabling legislation specified</i>	<b>Municipal Government</b>  <i>Identify local laws and policy specifically</i>
<b>Municipal Administration</b>  The service is organized by <i>Title of responsible operational manager</i>  Under the management of <i>Name of department</i>  And the responsibility of <i>Chain of command</i>  The service is delivered by: <i>Under what relationship?</i> _____	
<b>Criteria for Service Evaluation</b>  <i>List indicators for which there is service data</i>  <i>List performance measures that show results</i>	<b>3 Year Budget</b>  1997 - BGL _____ 1998 - BGL _____ 1999 - revenue offset _____ revenue request _____

### Customer Service

In a democratic society, the citizen is a customer of municipal services, and the last word comes at the ballot box. SBB recognizes the role of the citizen as customer and

organizes services to meet customer needs. A municipality demonstrates its acceptance of a customer-oriented approach by:

- Recognizing the “customer” as the aggregate demand of all citizens
- Systematically considering customer desires
- Establishing “customer centers”
- Creating complaint resolution processes
- Developing client choices
- Integrating feedback mechanisms into service delivery
- Adapting employee rewards system to support customer services

### **Performance Management**

Efficient and effective urban service delivery requires performance management—the planning, monitoring and measuring of service performance. This type of monitoring goes beyond day-to-day supervision of work crews. In performance management, the municipality establishes service objectives through its management planning, and monitors performance towards the attainment of those objectives. Objectives are usually described as effectiveness or efficiency goals:

- Effectiveness goals are stated in terms of the number of people served and the quality of the service delivered (i.e., doing the right things).
- Efficiency goals are stated in terms of the cost per unit of service delivered (i.e., doing things right).

Establishing goals, defining service program and monitoring performance helps managers to:

- Ensure the best possible service at the lowest possible cost (i.e., customer satisfaction)
- Identify areas for service improvement
- Ensure conformance to the budget
- Plan for future service delivery

The following provides an example of how performance management works. The goal of a municipal solid waste management department is to collect all the garbage produced and ensure clean streets at the lowest possible cost. An increase in the number of crews collecting garbage resulted in an increase in the amount collected from 4,200 tons to 4,800 tons in the current year. At the same time, the expenditures have risen 10 percent. To assess performance, the manager might collect and compare data on the following indicators:

- Cost per ton collected
- Quantity collected per crew per day
- Portion of total garbage production collected
- Cleanliness of the streets

This data can be collected quarterly or annually and can be desegregated for various areas of the city.

### ■ Types of Performance Indicators

A manager needs regular, valid data on indicators of performance. Indicators are quantitative data on the inputs to that service, the amount (outputs) of service units provided, information on program results or effectiveness (outcome), and the cost per unit of output or outcome (efficiency). Good indicators are relevant, relatively easy to measure, cost-effective, persuasive to other audiences, and timely.

When viewed together, performance indicators clearly measure how well a function is performed. It is important to know not only how much is done of a task (i.e., output) but also how well it was done and the customer's satisfaction. Performance indicators also allow managers to assess the results of a service by time (month-to-month or year-to-year comparisons) or by location (community to community or city-to-city comparisons). The table below lists the most widely used quantitative performance measures. In addition, performance measures can be narrative (deadlines or examples), proxy (surrogate or substitute indicators), and benchmarks (comparison of results and/or costs to a baseline).



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Type	Definition	Examples
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*Input Indicator*

Measure of resources employed

- Number of positions required for a program, cost, classroom space, supplies used, equipment needed.



Output Indicator	Quantity of service provided	■ Number of classes
Program Size	The magnitude of program coverage or effect	■ Number of projects
		■ Number of people served
		■ Number of letters answered
		■ Number of applications processed
Workload	Volume of work to be done	■ Number of inspections made
		■ Number of graduates

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Product

Volume of goods or services produced

■ Number of successful rehabilitation

<i>Outcome (Effectiveness)</i>	The effect or result (intended and unintended) that the program has on its environment. Also defined as the degree to which the intended	<ul style="list-style-type: none"><li>■ Decrease in crime rate Increase in employment</li><li>■ Change in students test scores</li><li>■ Percentage increase in employment among low skilled workers</li><li>■ Percentage reduction in traffic</li></ul>
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*Indicator*

objectives of the service is being met

accidents

*Efficiency (unit-cost)  
Indicator*

Cost per unit of output or outcome

■ Cost/million liters of drinking water  
delivered to customers

*Benefit Indicator*

Measures of the value to society of attaining an objective expressed in monetary terms

- Increase in expected earnings as a result of completing training program
- Reduction in welfare cost.

Source: Adapted from Harry P. Hatry, 1977. *How Effective are your Community Services?* Washington, D.C.: The Urban Institute.

### ■ Output vs. Outcome Indicators

Output indicators show the products and services delivered. They refer to the completed products of internal activity: the amount of work done within the organization or by its contractors (such as the number of miles of road repaired or number of calls answered). An outcome indicator is an event, occurrence, or condition that is the result of the activity or program and of direct importance to clients and the public. It is a measure of the amount and/or frequency of such occurrences. Service quality, such as the timeliness with which the service was provided, is also included under this category. The following table gives some examples of output and outcome indicators.

Output Indicators	Outcome Indicators
<ul style="list-style-type: none"> <li>■ Number of clients served</li> <li>■ Lane-miles of road repaired</li> <li>■ Number of training programs held</li> <li>■ Crimes investigated</li> <li>■ Number of calls answered</li> </ul>	<ul style="list-style-type: none"> <li>■ Clients whose situation improved</li> <li>■ Percent of lane-km in good condition</li> <li>■ Number of trainees who were helped by the program</li> <li>■ Conviction rates of serious crimes</li> <li>■ Number of calls that lead to an adequate response</li> </ul>

### ■ Outcome vs. Efficiency Indicators

Outcome indicators present the extent to which the real need for a service is actually satisfied (i.e., service results compared to service need). Efficiency indicators examine the extent to which service inputs are converted into service results. A relatively large output provided for a given level of input represents high efficiency. The table below compares outcome and efficiency indicators.



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**Outcome Indicator**

**Efficiency Indicator**

- Percentage of the total garbage produced in a city which is actually collected and disposed of
- Cost per ton to collect and dispose of that

properly

garbage

- Percentage of households with a 24-hour water supply
- Cost per cubic meter of water produced

The following table lists the service objectives and performance indicators for common urban services.

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**Service****Performance Indicators**

Name	Objective	Inputs	Outputs	Efficiency	Effectiveness
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<b>Solid waste collection and associated</b>	Collect all domestic solid waste and sweep streets clean on a	■ Number of workers	■ Number of households served	■ Cost per ton collected	■ Number of complaints per 1,000 households
		■ Number of trucks	■ Tons of solid waste collected	■ Cost per household served	■ Percent of garbage collected
		■ Liters of fuel	■ KM of roads swept	■ Tons collected per worker per day	■ Percent of households served
		■ Total	■ Number of	■ Km swept per month per	■ Percent of

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**street sweeping**   regular basis                      expenditure                      complaints                      worker                      streets swept

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<b>Sewer line</b>	Keep all sewer lines free of clogs and ruptures and in good functioning	■ Number of workers	■ Km of network cleaned	■. Cost per km of network	■. Number of complaints per 1,000 households
		■ Number of trucks, vehicles	■ Km of network free of problems or repairs	■. Cost per household served	■. Percent of network free of
		■ Liters of fuel	■ Number of repairs	■. Cost per repair	
		■ Quantities of sand, cement, pipe, rod, etc.	■ Number of	■. Cost of cleaning per meter	
		■ Total			

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<b>maintenance</b>	order	expenditure	complaints	cleaned	repairs
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<b>Road surface</b>	Maintain all roads with a good quality asphalt	■. Number of workers	■. Km of roads patched	■. Cost per km of road	■. Number of complaints per 1,000 households
		■. Number of trucks, vehicles	■. Km of roads resurfaced	■. Cost per household served	■. Percent of roads in good
		■. Liters of fuel	■. Km of roads in good condition	■. Cost of patching per km patched	
		■. Quantities of asphalt, gravel, sand, cement, etc.	■. Number of	■. Cost of resurfacing per	
		■. Total			

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<b>maintenance</b>	surface	expenditure	complaints	km resurfaced	condition
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### ■ Uses of Performance Measures

Performance measures can be used in several ways:

- To control costs—for example, identifying garbage collection routes where costs are much higher or lower than average and determining why these differences exist
- To compare processes—analyzing the performance of a service when using a particular technology, approach, procedure, or equipment as compared to other options
- To compare staffs/locations—analyzing the performance of a particular work crew or in a particular location as compared to others
- To track costs—determining how service costs have evolved over time
- To compare governments—comparing local service costs to those of other similar local governments as a way of determining where improvements can be made
- To maintain standards—monitoring service performance against established performance targets or benchmarks
- To compare sectors—comparing costs of public-sector service delivery to costs of private-sector delivery of the same type of service

### ■ Other Performance Information

Performance measurement should not be limited only to performance indicator data. Four other major categories of performance information should also be considered:

#### Demand for Services

To a certain extent, service need indicators represent demands from various stakeholders—a critical component of SBB. Demand comes from various sources, which must be understood and reconciled during the budget process. Some examples are:

- . Citizen request/demand
- . Department heads advocate
- . Leaders visions
- . Higher levels of government mandates
- . Political parties ideology or program

- **Service Need (Demand for Services).**

Service need indicators or demand measures indicate the scope of the program or the need for the service. For example, crime statistics (e.g., number of robberies) are a good example of a measure that can provide an indication of the level of demand for police protection. Demand measures are particularly useful for programs or departments that provide a direct service to the public. Other examples are: population to be served; number of households to be served; number of street lights to be maintained, and kilometers of drains to be cleaned.

- **Demographic and Other Information.** This is used to categorize the characteristics of work that come into a program. Thus for some programs information should be available as to the age, gender, geographical location, and income group of customers. A program that processes applications might want information on the complexity of the incoming workload. Programs working with business customers might want information on each businesses' industry classification, size, and location. Hospitals need information on the severity of illness of their patients to help assess success, and road maintenance programs will be concerned with the amount and type of traffic, and soil conditions of certain road segments. This information should be linked to outcome indicators for the service. For programs in which a mix of approaches are used, it is also useful to have information on the service delivery approach. For example, the number and type of assistance provided to customers with similar problems might vary.

- **Amount and Type of Incoming Workload.** This refers to the amount of work that comes into a program or is in process but not yet completed. For example, the amount of workload pending from the previous reporting period plus the new workload coming in indicates the workload on the program during a reporting period. In human services programs the workload is usually expressed in terms of the number of customers (or individual clients), households, or businesses. In road maintenance programs the workload may be the number of lane-miles that need repair.
- **Explanatory Information.** This helps to interpret performance data and explain why the results occurred. This information can be either qualitative or quantitative. It may also state factors that are either internal to the program (for example, the program unexpectedly lost key personnel during the reporting period) or external over which the program had little or no control (e.g., change in economic or weather conditions).



### 3.0 BUDGET PREPARATION

Like any process, successful budgeting requires planning and preparation. Service-based budgeting addresses three questions: What do the citizens want? What is the city going to focus on in the coming year? How are municipal resources going to be used? The city mission answers the first question, the annual goals answer the second, and the municipal budget answers the third. All governance levels must be involved in planning the budgetary process so as to maximize efficiency.

The tools required in preparing a budget include the (see the budget preparation manual for all forms):

- Budget calendar
- Transmittal letter from the Mayor
- Transmittal letter from the finance director (budget officer)
- Estimate of revenues and expenditures
- Budget request forms
- Detailed instructions on how to fill the budget request forms
- Definitions of key terms

Each of the above is explained below:

#### ***The Budget Calendar***

To ensure that the budget is enacted prior to the beginning of the fiscal year, a budget calendar should be developed that establishes all key dates and phases in the preparation of the budget. The budget officer should prepare the budget calendar after consultation with legislative and executive officials. Usually the calendar includes dates for the following activities:

##### **The Budget Calendar**

The bulk of the planning process involves establishing the activities that must occur during budget preparation and execution, including who is responsible for performing them and the time frame for their completion—usually presented on a budget calendar. Part of the planning process includes a modification of traditional patterns of organization, execution, control, and leadership.

- Distribute budget worksheets, instructions, and guidelines to departments
- Prepare expenditure estimates
- Prepare revenue estimates
- Submit department budget requests to the budget officer
- Compile budget requests into a single budget document and complete necessary summary schedules
- Review budget requests
- Present the budget to the legislative body

- Distribute drafts of new ordinances
- Hold budget hearings
- Adopt the budget (i.e., make appropriations)
- Begin the new fiscal year

The calendar can include additional and more detailed steps depending on how complex and formal the process is in each locality. In addition, the calendar should identify the individuals responsible for each process and the date of completion of each activity. Exhibit 3-1 shows a sample budget calendar.

Side Annual Goals and Objectives Based on the City's Long Term Vision and Community			Participants
Steps	Responsibilities	Responsible	
12. Review the budget (either Annual or Interim) draft	Discuss draft by committee and process	Municipal council	
13. Stepping Stone Budget Reference	Service responsibilities complete	committees	
14. Call for citizen focused service	Participate in public dialogue that	Mayor, deputy mayors, heads of	
15. Presentation of draft to Mayor	Analysis of draft with the	departments, citizens, non -	
16. Goals Message from the Mayor	leads to possible goals for city	governmental organizations, etc.	
17. Priority setting	Consideration of the city's set	Mayor, chairpersons	
18. Adoption of budget	report on the city and their revenue	Mayor, chairpersons	
19. Training on Constant Supply of	Based on the Budget Reference	Finance Department, Heads of	
20. Adjustment of draft	Manual	committees	
21. Services Concept	Manual	Departments, Operating	
22. Breathing the Municipal Council	laying out the vision and objectives of the	Managers	
23. of the vision of the budget	expansion of the current version after	Mayor, Deputy Mayor for	
24. Defining the base for the	Report on the execution of the current	Mayor, municipa	
25. budget process	Interim or final annual budget	Finance, City Council	
26. Chairperson of the	1. Operational objectives	chairperson	
27. Incorporation of public	2. Capital investment objectives	Deputy mayors, heads of	
28. recommended goals and	lead to service enhancements with full	departments	
29. full incorporation of public's	3. Operational objectives	Deputy Mayor fo	
30. program initiatives in city's	Costs identified for the presentation	and accounting ;	
31. presentation of draft to the	Mayor's letter attached		
32. Draft budget balancing	Collaboration with revenue	Deputy Mayor for Finance	
33. First revenue estimate	revenue and expenditure techniques	Heads of public-	
34. Apportionment by quarter	expenditures as requested accord	organizations	
35. priorities	Office		
36. Setting of apportionment	Objectives identified within teams	Deputy Mayor fo	
37. Elaboration of objectives by	area	and accounting ;	
38. Notification of Ministry of	Sending of forms elaborated by	Deputy Mayor fo	
39. Consideration of elaboration	Ministry of Finance	and accounting ;	
40. and discussion	Reasoned defense of identified	Mayor, deputy mayors, secretary	
41. Decision-making on	Precise formulation of objectives by	Mayor, deputy mayors, secretary	
42. administration's objectives for	area and type of services		
43. next fiscal year			
44. First Draft Budget Prepared	Full version of the budget document	Deputy Mayor for Finance	
45. required by MoF			
46. Training on Budget Requests	Based on the Manual	Finance Department, Heads of	
47. Process		Departments, Operating	
48. Managers			
49. General guidelines	Clarification of the "sustained level of	Deputy Mayor for Finance,	
50. services provided" method and		deputy mayors, heads of public-	
51. distribution of budget request forms		financed organizations	

Steps and Procedures		Responsibilities
1	Monitoring of expenditures and revenues	Monitoring and control of budget execution
54		Analysis of "budgeted-to-implemented" ratio (i.e., comparison of budgeted over quantity of services provided)
2	Cash flow management	Preparation and implementation of program for cash flow management
3	Develop performance indicators	Gathering of information to develop suitable indicators
4	Results of activity	Measuring results of services provided
5	Annual report	Preparation of reports after fiscal year: statutory requirements; analysis of services provided

*East European Regional  
Housing Sector Assistance Project*

As seen in Exhibit 3-1, the budgeting process can be divided into four phases, with the budget calendar establishing a time frame for the various steps within each phase, and clearly defining the participants and their responsibilities:

— **Phase A:** Decide annual goals and objectives based on the city's long term vision and community needs (part 1), and decide annual goals on the basis of budget requests and revenue evaluation (part 2)

— **Phase B:** Fiscal analysis, review and deliberation of proposed budget

— **Phase C:** Budget adoption

— **Phase D:** Budget execution

### ***The Budget Ordinance***

Creating a budgeting process that serves the city's needs is a time-consuming and labor-intensive process. Once a city has decided on its approach, it can formally establish the process and maintain it for a number of years via a budget ordinance. A budget ordinance allows the budget team to establish compliance methods for all city-funded service delivery units. Modifications and improvements should be made as needed, but the municipality should take advantage of prior experience and data.

The budget ordinance prescribes and communicates the city's long-term mission and is a step toward increased fiscal responsibility. Written to be ongoing except through formal amendment, the budget ordinance broadly defines the municipal budget policy and the various roles and responsibilities. Within the ordinance the municipality usually reinforces its commitment to citizen participation and customer values and defines its strategy for their inclusion in the budget process and resultant service delivery. Often the ordinance specifies the time frame and key milestones for the budgeting process.

## ***The Budget Message***

The mayor's budget message communicates the municipality's immediate mission, and focuses on the needs, resources, and objectives for the forthcoming budget year. In writing the budget message, the mayor interacts with the public, involving them in setting the priorities for the next year.

## ***Budget Requests***

The service-based budget process requires the support of the operational managers. Each operational manager will have to complete budget forms for continuation of the existing program (constant services), any proposed expansions (enhancement requests), any capital equipment, and a service delivery management plan. Each step is explained below and corresponds to the sample exhibit in the budget preparation manual.

### **Base Budget Requests**

Under service-based budgeting departments prepare base budget requests. The term "base budget" refers to a department's current service level or baseline budget, as defined by the municipal administration. Departments will prepare base budgets to maintain the same quantity of services at the same level of quality as the previous year (i.e., a constant supply of service). They will also provide performance indicators (see Chapter 2 of this manual) to justify that service objectives are being met and that the program/department should continue to be funded.

Base budget requests must follow certain rules or general instructions. The box below provides a checklist for the finance department, operational departments, and enterprises to use in reviewing constant supply of service requests.

**Checklist: Constant Supply of Service Requests**

Does the budget request follow the rules?

Is it clear what services will be provided and that the amount of services equals last year's?

Are the services adequately defined in terms of whose demand is being met?

Does the requested resource amount maintain, but not exceed, the constant supply of service base budget amount? (Amounts exceeding the base budget should be included in a budget enhancement request.)

Is the service still needed?

**A Constant Supply of Service Budget**

The following example illustrates the formulation of a constant supply of service budget: An individual owns a banichki stand that serves 20,000 customers per year. This individual's constant supply of service budget for the next year is the cost of producing banichki for 20,000 customers, which includes any cost increases for salaries, dough, cheese, supplies, or other required items due to inflation or price variability. Any additional resources required to meet an increase of customers is considered a "budget enhancement."

In the budget process, it is assumed that present policies will remain unchanged for the next year. Expenditure and revenue estimates will only be adjusted to ensure a constant supply of service. For example, a factor for inflation shall be included in the annual growth formula but only at a specified rate per year. Any other increases in services (e.g., due to population growth, new national requirements) must be submitted as budget enhancements. Any decreases in services (e.g., due to population decline, removal of national requirements) will be factored into the annual growth formula by the finance department. Line items (i.e., sub-objects) that are modified upward or downward by a significant amount

must be justified, and notes must explain any significant overspending or under-spending of the prior year's budget.

Below are important deadlines for preparing base constant supply of service budgets:

**Requirement****Deadline**

Own-source revenue projections submitted  
All expenditure requests submitted

Mid August  
Mid September

The finance department will review each department's request and schedule meetings as questions arise during the review process.

### ■ Base Expenditures

**Personnel Expenditures.** The finance department is responsible for forecasting each department or budget unit's applicable salary and fringe benefit figures for the new budget year. For example, the new salary figures will be the current adopted budget salary figures plus any previously or currently approved adjustments. Personnel expenditure estimates will be provided to departments using the following revised benefit rates:

	Current Year	Next Year
Social Security		
Pedagogical	40 percent	40 percent
All other	37 percent	37 percent

These benefit rates are used for calculating the total salary and benefit cost of new positions on enhancement budget requests (discussed later).

Departments must clearly identify any base estimates for overtime, budgeting and justifying it on the constant supply of service budget request. All positions identified by number and title should have the labor distributed across identified service delivery areas, indicating the position's role in delivering direct or indirect services and its salary and fringe benefits:

- **Operations and Maintenance Expenditures.** To help departments prepare their next year constant supply of service budgets, the finance department can provide data on all expenditures, including those for operations and maintenance, for the past three years. A department can use this data to conduct trend analyses to estimate the program cost of maintaining the quality and quantity of services during the next fiscal year. If an operations and maintenance funding request varies significantly from actual expenditures in the prior two years adjusted for inflation, a justification must be provided. Effort should also be taken to incorporate the impact of any special circumstances and to explain them fully. The historical data will vary from year to year due to project stoppages, start-up of new programs, modifications, or other city initiatives. The finance department will explain such changes when providing data to departments.
- **Contractual Services.** As with the rest of the department's budget, line items for contractual services may be increased for inflation if necessary but only at a rate of X percent or less per fiscal year. Whenever possible, departments should contact service providers to determine if existing services will continue at current prices. All contractual service sub-objects must be accompanied by a written explanation of exactly what services are delivered through the contract. At a minimum, each explanation should include (1) who the service provider is, (2) what service is provided, and (3) how the expenditure estimate was calculated.
- **Utilities.** Ideally all departments should budget for utilities used in all municipal buildings. Questions about whether or not utilities should be budgeted for a certain location should be directed to the finance department.
- **Capital Outlay and Capital Acquisition.** Before requesting budget support for annual capital outlays, a department should ask itself the following questions:
  - Will the purchase or project be completed during the next budget year?
  - Are expenditures mostly for construction or equipment?
  - What is the estimated capital cost of the project or equipment?
  - Are expenditures for replacements or non-replacements (i.e., initial)?
  - Are expenditures associated with requested enhancements or constant



services?

Capital outlay costs should not be carried forward from year-to-year.

### ■ **Base Revenues**

For each revenue sub-object, departments must estimate those funds that the city can expect to receive by the end of the current year and provide this information to the finance department. Any differences between actual revenue and the current year adopted budget must be explained. Departments project their revenues from each source for the next year assuming no rate increases in current fees or charges. A detailed explanation of how the department arrived at its final estimate must be provided. Initial revenue estimates are to be submitted no later than first week of October.

### **Enhancement Budget Requests**

Any resource request that exceeds the constant supply of service budgeted amount must be submitted as a budget enhancement. Questions concerning what constitutes a budget enhancement should be directed to the finance department.

### ■ **Expenditure Enhancements**

This type of enhancement is the most common and is typically the result of directives by the mayor, the municipal council, or the national government. An expenditure enhancement is any budgeted expenditure (personnel, capital, or other budget costs) that exceeds the constant supply of service budget. For example, as a result of complaints about illegally high retail prices, the council or mayor may direct the trade department to increase the frequency of inspections from 50 per year in the current year to 80 per year in the next year. This forces the department to hire three new inspectors. The personnel and other budget costs for these positions is the enhancement amount for next year.

Expenditure enhancements may also increase revenues related to a particular program activity. For example, because the trade department charges a fee per inspection, additional inspections will increase revenues, thus offsetting a portion or all of personnel, equipment, and other budget expenditures associated with them. Unless the unit cost for each inspection is increased, there is no reason to complete a revenue enhancement request.

## ■ Revenue Enhancements

A revenue enhancement is any proposal for a new source of revenue or any increase in scale for a charge, fee, and/or rate for a service provided directly by a department program. For example, the administrative services department wants to increase its charge for issuing permits from 5,000 leva in the current year to 6,000 leva the next year. The marginal increase in revenues above inflation as a result of the new rates constitutes the revenue enhancement. Rate enhancements always require endorsement from the municipal council and the appropriate standing committee. In some cases, a revenue enhancement requires a separate public hearing process. The following, (Exhibit 3-2) shows the difference between a constant supply of service budget request and an enhancement budget request for expenditures and revenues.

### **Exhibit 3-2**

#### **Constant Supply of Service Budget Request vs. Enhancement Budget Request**

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Constant Service Budget	Enhancement Request
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**Expenditures**

Personnel

Existing

New position(s)

Operational

Existing

Expanded

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Capital Outlay	Replacement	New or expanded
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**Revenues**

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Own-Source Rev.	Projected from prior year	New fees, sources, or rates
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## ■ The Enhancement Request Process

The development and submission of enhancement requests consists of seven steps:

- **Step 1.** Using the mayor's criteria (see Exhibit 3-2) and the enhancement request forms (exhibits are provided in the budget preparation manual), the departments develop their requests and rank them (1 = highest priority, 10 = lowest priority). Enhancements related to capital improvement program (CIP) projects are ranked separately from the program/service-based enhancements.
- **Step 2.** The departments submit ranked enhancement requests to their deputy mayor or city secretary for discussion and prioritization. The departments also submit CIP enhancements to the finance department.
- **Step 3.** The deputy mayors and the city secretary discuss and rank the enhancements for all departments (1=highest priority, 10=lowest priority). As in Step 1, program/service-based enhancements are ranked separately from the CIP enhancements. There are no sub-rankings, and enhancements should not be tied to each other.
- **Step 4.** The deputy mayors and the city secretary submit prioritized program/service-based enhancement requests, including any background information (e.g., quantitative data on how the enhancement will affect the management plan) to the finance department. This is followed by their ranking of CIP enhancements, based on the project's ranking in the plan.
- **Step 5.** The finance department provides any comments on all enhancements to the deputy mayors and city secretary and meets with the mayor for final discussion. Comments on CIP enhancements are also sent to departments.
- **Step 6.** The mayor meets with the deputy mayors and city secretary to identify his and the municipal council's program/service-based enhancements priorities. After consultation the mayor makes the final recommendations for CIP enhancements.
- **Step 7.** The finance department incorporates the recommended enhancements into the proposed budget. (Enhancements are not budgeted in department



budgets, but as decision increments to be considered separately).

**Exhibit 3-3****Mayor's Criteria for Consideration of Enhancement Requests**

Enhancements developed by departments and functional units must adhere to the following guidelines in order to receive the mayor's recommendation for approval:

**Enhancement must meet all of the following criteria:**

- must have a direct impact on the adopted municipal strategic plan.
- must have a documented impact on a department's management plan.
- must have a measurable impact and be directly related to a management plan performance indicator.
- must be endorsed and prioritized by the relevant deputy mayor and city secretary (or specifically directed by the mayor).
- must have an implementation plan (i.e., public hearing dates, schedules, etc.).

**Enhancement must also meet one of the following criteria:**

- as directed by either the municipal council, the mayor, a deputy mayor, or city secretary.
- presents resource allocations necessary to comply with a national mandate.
- relates to the implementation of a CIP project currently in process or proposed for FY1999.
- is essential to meet a public need with a greater emphasis on customer service.
- replaces a withdrawal of national funds for the maintenance of a critical service.
- presents increased resource allocations to substitute for a decline in another source and necessary to maintain current service levels on a constant supply of service basis.
- is essential to maintain constant levels of public health and safety.

The mayor will only recommend an enhancement to the municipal council for approval if it both (1) meets the mayor's general guidelines and (2) includes any and all required attachments. The attachments can include the following:

**Feasibility:** Position enhancements include a time line for recruitment, office reconfiguration, equipment purchases, etc. Revenue enhancements include an implementation time line.

**Relevant management plan pages:** Pages must be revised to show improvements or maintenance in workload indicators as a result of the new position, practice, or service.

Department must complete each section of the enhancement request form carefully. Incorrectly completed requests will not be considered for review.

Requests should be as specific as possible in their enhancement requests. Departments must demonstrate the benefits to be received by the enhancement, how the enhancement will assist in maintaining service levels, how the enhancement will assist in meeting program goals, and the impact on services if the enhancement is not approved.

Exhibit 3-4 is a checklist of enhancement requests.

<b>Exhibit 3-4</b> <b>Enhancement Requests Checklist</b>	<b>■</b> <b>Enhancement Form Instructions</b>
Does the enhancement request follow the general instructions?	
Were the appropriate forms completed?	<ul style="list-style-type: none"> <li>• <b>Basic Information:</b></li> </ul>
Is it clear what additional services will be provided or additional revenues generated?	Provide the department/agency and program the departmental and functional group rankings of the enhancement, and the type of enhancement (i.e., program/service or CIP).
Is the purpose for the proposed enhancement request clear and reasonable?	
Did the enhancement receive a functional group ranking?	
Were program/service and CIP expenditure enhancements ranked separately?	
Does the enhancement directly impact the city strategic plan?	
Does the enhancement have a documented impact on a department's management plan?	<ul style="list-style-type: none"> <li>• <b>Summary Table:</b> Information in this table is the total expenditures and revenues of the</li> </ul>
Does the enhancement meet one of the mayor's secondary criteria?	

enhancement.

- **Expenditures:** This line is for the total increased expenditures as a result of this enhancement (combination of all expenditure sub-objects).
- **Revenues:** This line is for the total offsetting revenues that will result from this enhancement (combination of all revenue sub-objects).
- **Local Tax Funding:** This line describes the net fiscal impact associated with the proposed enhancement (expenditures less revenues). This is the difference between the total expenditures and total revenues related to the enhancement.
- **Personnel:** If the enhancement includes new permanent positions, include the

number of full-time equivalents (FTEs) and the official titles and job classifications of each new position.

- **Description of Enhancement:** This section should include:
  - The type of enhancement being requested (e.g., maintain service levels, new program, operating costs of implementing a CIP project, revenue enhancement, etc.) and its cost
  - The resulting program and activities
  - The quantifiable and measurable benefits to be achieved by the enhancement
  - The effective date for the enhancement
  - The mayor's secondary criteria (i.e., "must meet one") met by the enhancement
  - Attach any relevant background information.
- **Enhancement's Relation to the Department Mission:** Explain how the enhancement enables the department to achieve its stated mission. Attach any relevant background information.
- **Enhancement's Impact on the Management Plan:** Explain how the enhancement will affect the department's management plan. Attach a revised management plan page and/or quantifiable background data.
- **Impact If Not Approved:** Specifically explain any consequences that are anticipated to result from the rejection of this enhancement. Quantify the impact where possible, and attach the relevant pages of the management plan.
- **Detailed Table:** This table provides specifics on the information presented in the summary table (Item 2). Attach any relevant background information.
- **Expenditures:** Identify all personnel, operations and maintenance (O&M), and capital outlay costs associated with this enhancement by program and sub-object for FY1998 and FY1999.

- **Revenue:** Identify revenue, fees, or grants associated with this enhancement by program for FY1998 and FY1999.
- **Local Tax Funding:** Identify the net fiscal impact (revenues less expenditures) for each program associated with this enhancement for FY1998 and FY1999.
- **Implementation Time line:** Provide a schedule if the enhancement is such that it needs to be implemented over time. Identify:
  - When staff will be recruited, hired, and trained
  - Key actions and necessary milestones
  - Completion dates (if applicable)
  - Highlight approximate dates for key events using letters or numbers, and provide a brief explanation of each key event

## 4.0 BUDGET ANALYSIS

### Using Fiscal Analysis

The principles of fiscal analysis described in this chapter should be used by departments, enterprises, and community organizations as they prepare their base budget and enhancement requests. By conducting their own revenue analysis, activity-based costing, and departmental budget preparation, these groups will avoid being “surprised” by the finance department’s findings.

Budget analysis is important because it helps support the following budget decisions:

- How much the local government can afford to spend;
- How will new priorities be funded; and,
- How will existing services be made more efficient.

In reaching the above budgetary decisions, the department of finance has many responsibilities, including:

- . Providing generalized municipal information for all funded departments, enterprises, and community groups;
- . Issuing comprehensive budget instructions that are reasonable and understandable;
- . Communicating with stakeholders;
- . Preparing information for the public that allows understanding and discussion of budget issues;
- . Providing the mayor, deputy mayors, and municipal council with fiscal information for making informed decisions;
- . Offering advice and assistance to departments in completing budget request forms and department management plans;
- . Reviewing enhancement options requested by the mayor and municipal council
- . Analyzing departmental requests;
- . Helping the mayor and municipal council prepare for public meetings and considering public comments from meetings and hearing(s);
- . Proposing a balanced budget for serious consideration and review;

- . Reconciling the final adopted municipal budget to national executive budget and municipal council decisions;
- . Suggesting improved or additional financial policies;
- . Meeting national statutory requirements to comply with the Ministry of Finance;
- . Adjusting the budget process to accommodate appropriate recommendations from the audit chamber; and
- . Notifying the departments, enterprises, and community groups of final budget decisions.

This partial list is important because the finance department must take leadership in all of the above areas if the enabling ordinance identified in Chapter 3 is to have the positive and necessary impact that was intended. With the preliminary submission of budget requests, the process turns to fiscal analyses—both revenue/expenditure forecasting and activity-based costing—all of which relies on the finance department's professional expertise and hard work.

### ***Revenue Forecasting***

Revenue forecasting (or estimating) is an art, not a science. Forecasting is the process of calculating in advance, of making a determination today of the value of a variable in the future. Forecasting for the short term and forecasting for the intermediate or long term, require different forecasting methods. Revenue analysts generally employ one or more of the following types of models in projecting revenues for budgetary (or multi year forecasting) purposes:

- **Expert Judgment.** The key to the successful use of this technique is the “expert” who possesses substantial knowledge and experience in the estimation of annual budget revenues. To produce consistently successful forecasts, an expert must know the revenue system, the local economy, and how to obtain additional information. Expert judgment is widely used in estimating annual revenues, often in conjunction with trend analysis. Expert judgment and trend analysis are simple and inexpensive forecasting methods that are ideal for certain revenues, such as the property tax. The disadvantages associated with expert judgment are its dependence on the subjective views of the expert and the risk of the expert leaving the position and taking the forecasting model along.
- **Trend Analysis.** This technique relies on the assumption that revenues are a

function of time. One of the most common assumptions in trend analysis is that the annual revenue growth rate in the future will be the same as that in the past. Trend analysis can be applied to all revenue sources, including business licenses, building permits, sales taxes, and property taxes (see a sample trend analysis below). As mentioned above, trend analysis is often used in conjunction with expert judgment to estimate budget revenues. A limitation of trends analysis is that it never predicts a “turning point” in a revenue stream; rather, it predicts a continuation of the increases or decreases previously experienced, regardless of any changes taking place in the economy. This can lead to overestimating or underestimating revenue collections.

- **Deterministic Forecasting.** This approach to revenue forecasting allows for variables other than time by focusing on the rates and bases of revenues. For example, revenues from auto registration fees are a function of the number of registered automobiles and the registration fee per automobile. By projecting the number of automobiles registered in a municipality, one can easily develop an estimate of automobile registration revenues. This approach is often criticized as being too linear. It has many of the same flaws as the trend analysis and expert judgment techniques.
- **Econometric Forecasting.** This technique is much more complex than the methods described above. Under this approach, historical revenues are related to economic and demographic variables, which, in turn, links revenue estimates to anticipated fluctuations in those indicators. In econometric forecasting, several independent variables are used concurrently and systematically to produce revenue estimates. Use of this technique enables “what if” analysis, which provides estimates of the effect of a range of outcomes under alternative assumptions. Despite its greater flexibility, this technique has several weaknesses. It is very costly in terms of data needs, staff time, and expertise and requires the use of computers. For the most part, this technique is used for multi year revenue and expenditure forecasting.

### Sample Trend Analysis

Trend analysis involves analyzing historical data (for at least 3 years), accounting for changes in local revenue sources, identifying positive and negative economic conditions, adjusting for inflation, and making careful judgments in analyzing the data. The first part of trend analysis—analyzing historical data—follows these steps:

- **Step 1.** Identify and list each revenue source (e.g., property taxes, sales taxes, etc.). Sources should be projected separately because trends can vary by



source.

- **Step 2.** Find the difference in revenues between each year.
- **Step 3.** Calculate the percentage change between each year.
- **Step 4.** Sum the percentages for all years.
- **Step 5.** Divide the total by the number of percentage changes (e.g., for 3 years of historical data there would be two percentage changes). This provides the average annual percentage change for the period studied.
- **Step 6.** Multiply revenues for the current fiscal year by the average annual percentage change. Add the result to current revenues to project revenues for the upcoming fiscal year.
- **Step 7.** Adjust the projected revenues for changes in inflation, population growth or decline, laws impacting local revenues, and economic activity.

The following example shows how trend analysis may be used to estimate the “business licenses” revenue source. A review of financial records reveals the following:

---

1991

1,000

1992

1,200

1993

1,300

1994

1,500

1995

1,900

1996

2,100



1997

?



The figures above are used to calculate the rate of change between each year's collected business license revenues:

			<b>Rate of Change</b>
$\frac{(\text{FY1992} - \text{FY1991})}{\text{FY1991}}$	$= \frac{(1,200 - 1,000)}{1,000}$	$=$	0.20 or 20 percent
$\frac{(\text{FY1993} - \text{FY1992})}{\text{FY1992}}$	$= \frac{(1,300 - 1,200)}{1,200}$	$=$	0.08 or 8 percent
$\frac{(\text{FY1994} - \text{FY1993})}{\text{FY1993}}$	$= \frac{(1,500 - 1,300)}{1,300}$	$=$	0.15 or 15 percent
$\frac{(\text{FY1995} - \text{FY1994})}{\text{FY1994}}$	$= \frac{(1,900 - 1,500)}{1,500}$	$=$	0.26 or 26 percent
$\frac{(\text{FY1996} - \text{FY1995})}{\text{FY1995}}$	$= \frac{(2,100 - 1,900)}{1,900}$	$=$	0.10 or 10 percent

The rates of change are added up and divided by the number of changes over the period:

$$\frac{20\% + 8\% + 15\% + 26\%}{5 \text{ changes}} = \frac{79\%}{5} = 16\%$$

The average rate of change is applied to the current year's (FY1996's) revenue to estimate how much revenues will increase for FY1997:

$$2,100 \times 0.16 = 336$$

Adding this increase in revenues to the current year's collections provides the estimated revenue from business licenses for FY1997:

$$336 + 2,100 = 2,436 \text{ leva to be collected in FY1997}$$

If a municipality does not have data on each revenue source or if staff resources are limited, trend analysis can be performed with total revenues. The city should keep in mind, however, that the result of such an exercise is more an approximation than a projection. The basic historical data analysis described above does not constitute a complete trend analysis. In projecting revenues, the finance department should take into account the following factors:

- Changes in the law that impact the municipality's ability to collect the revenue source.
- The rate of delinquent taxes and fees (e.g., are all revenues due to the municipality being collected in a timely fashion? If not, what actions will correct this situation?).
- Unusual or seasonal changes in the revenue source (e.g., was a large, one-time revenue received in the past?).
- Inflation's effect on real growth.
- Special problems in collecting a particular revenue source.

In addition to local revenue projections, trend analysis can be performed to estimate the level of central government transfers likely to be received. Although it is difficult to predict this major component of municipal revenue, assumptions must be made to obtain some projection of this critical revenue source. As a starting point, these revenue projections can be based on receipts from prior fiscal years, making adjustments for

inflation and any actions the Ministry of Finance and the Parliament are likely to take. After the analysis is completed, the finance department should identify when in the fiscal year each revenue source will be received and the amount to be collected. This will serve as a revenue and cash flow plan. Once the fiscal year begins, actual revenue collections should be monitored against this plan and adjustments made accordingly.

### **Other Considerations**

As a general rule, it is best to be conservative in revenue forecasting. It is better to underestimate revenue projections than to overstate them. This will help to avoid budget shortfalls and the need to cut back services once the budget is implemented. In addition, officials charged with the development and monitoring of the annual budget should consider the following when working with revenue forecasting:

- **Setting Goals for the Accuracy of Estimates.** Top management should set goals for revenue estimate accuracy. Although perfection is not possible in forecasting, an acceptable level of variance should be established. Most revenue analysts are satisfied when actual collections of major revenue sources are at least 95 percent of estimates—assuming that revenue bases and rates are stable. Although the effects are not detrimental to a municipality's fiscal situation, positive variances (i.e., overestimates) should not exceed 5 percent of estimates.
- **Implementing Methods to Control Spending.** Of all aspects of the prior financial system, spending controls were the most developed. With the emergence of service-based budgeting, line-item spending controls should be relaxed by giving responsible operational managers discretionary authority to deliver promised public services in the most cost effective method. Managers must be held accountable for their decisions and rewarded for taking innovative steps to better serve the customer. Their actions, however, must be performed within program mission statements and within the policy guidelines of the municipality.
- **Using Multi-year Revenue and Expenditure Forecasting.** Multi-year revenue (and expenditure) forecasting can provide important information to budget officials. By employing econometric modeling, multi-year forecasts can help to identify turning points in revenue streams and also describe outcomes under a variety of scenarios.

### **Activity-Based Costing (ABC) Technique**

ABC sets out to answer the following questions concerning municipal performance:

- What does it cost the city to provide a service?
- Is the city's cost of providing services competitive in the marketplace?
- Is there an alternative delivery system that can provide the same service at a lower cost or at greater value?
- Is there a cause-and-effect relationship between spending and results?
- What outcome can citizens expect?
- How do the city services respond to customers needs?

As a brief overview, ABC is a very useful technique for determining the full cost of providing a city service. By identifying component cost details, cost impacts, and savings from alternative courses of action, ABC can be used to compare delivery costs for the same service in different locations, as well as to highlight areas of efficiency and areas needing improvement. Attaching costs to the performance of specific activities enables city departments to measure the quality, efficiency, and effectiveness of the services delivered, and is therefore a key tool for analyzing the base level of service.

The objectives of ABC are as follows:

- To preserve, at a minimum, the present quality and availability of core services while acknowledging that some external factors may impact expenditures and are beyond the control of the municipality.
- To reduce the costs of service outcomes by: (1) reducing the number of service units through program redesign, (2) finding lower-cost alternatives for providing services, and (3) making any volume increases that lead to cost reductions.

The key components examined by ABC are:

- Activities: the tasks performed by employees, equipment, and facilities;
- Drivers: the linking of activity costs to outputs;
- Outputs: the final results or accomplishments; and
- Consumption: the extent to which each activity should be allocated to each output.

Exhibit 4-1 illustrates how traditional cost information for snow removal and pothole patching are tied to the activity level by using an ABC model. This example shows that ABC makes it possible to identify the cost of the two distinct services or activities. This is important because some departments or enterprises deliver a wide variety of services.

#### Exhibit 4-1

### Total Cost of Service: Snow Control (12 road miles) and Pothole Patching (14 tons of mix)

Activities (Cost  
summary)  
Activities

Costs and Related Drivers (Definition of inputs)

Activity Name	Total Dollars
C Labor	1000
D Labor	600
Salt	400
SAD	400
Central service Overhead	200
Total	2600

C=snow control; D=patching potholes

Activity Name	Driver
C Labor	C Hours
D Labor	D Hours
Salt	Tons of salt
SAD	SAD Hours
Central service Overhead	Total labor hours

Consumption (Level of effort/unit summary per activity)

Drivers	Snow Control	Patch Potholes	Total



C Hours	50	50	100

D Hours	10	20	30

Total labor hours	60	70	130
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Tons of salt	500	0	500
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SAD Hours	80	70	150
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## Total Cost per Activity

Activities	Snow Control	Patch Potholes	Total
C Labor	500	500	1000
D Labor	200	400	600
Salt	400	0	400
SAD	213	187	400
Central service O/H	92	108	200
Total	\$1405	\$1195	\$2600

## Calculated unit costs:

12 miles of road                    @            \$117.08/mile (snow removal)  
 14 tons of mix                    @            \$85.36/ton (patch potholes)

---

Activity-based costing occurs over five phases, as described below:

- *Phase I: Definition of Project Objectives and Establishment of Department Activities and Outputs.* This first phase focuses on becoming familiar with department operations, personnel, and quantifying data. The activities and outputs are identified.
- *Phase II: Collection and Analysis of Appropriate Costs and Allocation Methods.* In this phase, relevant cost information is collected. After cost information is accumulated, appropriate cost drivers for the activities defined in Phase I are developed. In addition, the most effective means of measuring departmental outputs are determined.
- *Phase III: Collection of Current Direct and Indirect Cost Information.* Similar costs are pooled into categories which then can be used for easier direct and indirect cost analysis. Activity cost pools are routinely established on computer-based spreadsheets so that detail can be summarized. The most common activity cost pools are personnel, direct materials, vehicles and equipment, fixed asset and facility costs, and administrative overhead.
- *Phase IV: Development of an ABC Model.* An ABC model to assign the activity cost pools to each output is developed using the information from the first three phases.
- *Phase V: Production of Cost Information and Expansion of the Departments' Capabilities for Continued Use of the ABC Model.* In order for the ABC model to be utilized most effectively, the operational managers have to believe that cost is a variable that can be changed. The data collected through ABC help instill in operational managers a willingness to make changes that will lower costs or improve services.

### **Off-Budget Resources**

Off-budget (or extra budgetary) items are resources that are accumulated and expended according to municipal law without being incorporated into the municipal budget. While it is a very important aspect of the municipality's expenditure plan, off-budget resources offer more flexibility and less accountability and transparency than budget resources. Razgrad's total off-budget revenue for FY1998 amounted to BGL 2,077,051,000, a figure representing one-seventh of the city's total budget and one-fifth of local revenue. Exhibit 4-2 shows off-budget funds for FY1998.

The legal framework for off-budget resources is established by several statutory provisions (see Appendices):

- Chapter 7 of the State Budget Procedures Act;
- Chapter 9 of the Municipal Budgets Act; and
- Clauses 9, 10, and 11 of the 1998 State Budget of Republic of Bulgaria.



Off-budget resources are accumulated and expended through off-budget accounts and funds whenever they are established through:

- An explicit legal provision; or
- A particular declaration of will—donation, testament, local referendum, or other means—delegated by individuals or organizations.

### **Reporting and Management of Off-Budget Resources**

Off-budget resources are accumulated and expended in compliance with the uniform budget classification. They are reported on the cash accounting principle through annual revenue and expenditure accounts that the municipal council adopts with its budget. If a municipal budget has not been adopted, the municipal council adopts off-budget accounts within a month of the opening of the budget year. The municipal council adopts the off-budget expenditures report along with the report on the municipal budget execution. Despite their specific nature, the management of off-budget funds is governed by several general principles:

- Strict monitoring of resource allocation;
- Optimal efficiency in expending resources, especially when used for investment;
- Establishment of a cash flow management program for each individual fund;
- Application of basic budget-drafting procedures (since most allocations relate to service provision); and
- Creation of performance indicators for every activity financed by off-budget resources.

### **Certification and Control**

The chart of accounts and the reports for off-budget resources must be submitted to the regional subdivisions of the Chamber of Accounts and to the Ministry of Finance. The reports are submitted along with municipal budget execution and budget accounts reports. The reports on off-budget accounts and funds are subject to certification by the Chamber of Accounts under the procedure for certification of reports on the budget execution.

## Off-Budget Accounts and Funds in Razgrad

Privatization Fund  
 Environmental Protection Fund  
 Housing Construction Fund  
 Price Control Fund  
 Land Fund  
 13 Centuries Bulgaria Fund  
 Social Welfare and Cultural Services Fund  
 Performance of Municipal Enterprises  
 Regional Center for Social Assistance

The mayor and the municipal council are ultimately responsible for the performance of municipal enterprises. The enterprises' relationships to the municipality are defined by actions and contracts enacted by the municipal council. As tools for making municipal services more effective, municipal enterprises should operate as an integral part of the municipality as a whole, and of the budget process in particular.

The approval of an enterprise's off-budget accounts is not an indication of any measurement of its performance. For this reason, a system of objective, enterprise-specific indices and measurement tools should be devised in the future for assessing, analyzing, and evaluating their performance within service-based budgeting.

## Municipal Enterprises

A municipal enterprise is an entity of the municipality that

specializes in providing goods and services, and catering to the community needs. It is one of the primary organizational units through which a municipality implements its business activities.

## Relations with the Municipality

Municipal enterprises are created, transformed, and shut down by decisions of the municipal council.

Enterprises therefore may be subject to the municipality's budget process, if the municipal council orders it so. Because the mayor signs the employment contracts of the municipal enterprise managers, the managers may be included on the mayor's expanded budget team. Enterprises operate according to municipal council regulations regarding:

- The scope of activity (i.e., the type of municipal service);
- Allocated property and funds;
- Management bodies and their membership;
- Financial relations;
- Accounting; and
- Regular reports on the work performed.

The municipal council establishes the size of the revenues and expenditures in the enterprise's off-budget account. Off-budget accounts are annual and adopted by the municipal council along with the municipal budget (see Annex N).

## Enterprise Activities

Municipal enterprises enable municipalities to provide certain types of services. Enterprises typically are created for the performance of activities that:

- Are a responsibility of the municipality by force of a law or a local decision;
- Require specific training and therefore may not be performed by the municipal staff; and
- Do not involve any business risk.

A municipality can set up municipal enterprises to provide various services including:

- Urban planning and public works (i.e., municipal infrastructure construction and maintenance);
- Municipal market places and open-air commodity markets;
- Social services and ceremonies;
- Municipal fixed assets for culture, education, health care, sports, and social activities
- Holiday-making and school and canteen catering;
- Municipal housing and premises; and
- Transport service.

### **The Next Step**

Once the proposed budget has been prepared, the mayor and finance department present it to the municipal council and the public. Guidelines for budget presentation are discussed in the next chapter.

## **5.0 BUDGET REVIEW, DELIBERATION AND ADOPTION**

In Bulgaria local governments are required by law to operate within a balanced budget. Since demands or total request for funds are typically larger than existing available resources, a budget review is necessary to bring budget requests into balance with available revenues. The review process also offers an opportunity for prioritizing services to be delivered to the citizens. Once budget requests have been submitted, the deputy mayor for finance and economic development (hereafter called the budget officer) should meet with each division, department, school, or other entity with an entry in the budget. The municipal budget staff should then draft a balanced budget for consideration and review that takes into account the goals of the mayor and municipal council, various requests, and revenue information. Once the review is completed, the budget requests and recommendations are assembled into a budget document and presented to the budget committee of the municipal council for consideration, and to the public for open deliberation. After making desired modifications, the budget is finally adopted.

### ***Budget Review and Deliberation***

The review process ensures that the total proposed governmental expenditures do not exceed the total of estimated revenues, by removing unnecessary, ineffective, and inefficient activities. In reviewing requests from department heads for program expansion (based on claims that services must be increased), the budget officer should first determine whether the perceived need for more resources can be met by altering the mix of existing resources. A department requesting budget enhancements must be able to substantiate the magnitude of need. Relevant workload data must be furnished to demonstrate the level of existing activity, the degree of achievement attained, and any remaining work to be done.

Program objectives and performance indicators should be tied into budget requests. The budget officer must also determine whether the objectives of an activity could be achieved just as well with less than the resources requested, and may establish priorities based on major issues or potential fiscal problems facing the locality. Budget request forms with detailed justification of department requests are therefore very useful in analyzing resource requests. The sample budget request forms in the budget preparation manual (Chapter 2: Tools of Budget Preparation) request performance indicators from the departments. After the revenue estimates and expenditure requests have been examined and reviewed by the budget officer, he/she assembles in draft form all the information that comprises the budget document, and starts the process of budget deliberation.

A budget is a reflection of policy decisions related to revenue mobilization and taxation as well as program funding and service delivery to the public. The budget deliberation process can be done openly and with significant input from citizens, or it can be done without their active involvement. An open deliberative process provides the opportunity to consider various options, generate new ideas not previously considered, involve citizens, and ultimately build a more accountable and responsive system of local

government. On the other hand, public involvement can lead to conflict over taxes and spending programs and can be more time consuming. Budget managers should plan a process that benefits from public input while avoiding the creation of an open-ended process subject to a great deal of change.

Communicating the budget to the public can be done through news releases, bulletins posted on city hall boards, or other announcements. A written summary that explains the major budget elements in a manner that can be easily understood is quite helpful. For the budget submitted to the budget committee, this summary can be a letter attached or bound to the budget. The summary describes:

#### Public Participation Self-Test

- Is public opinion sought concerning the budget?
- Is public opinion sought before major decisions are made?
- Do citizens' views have some authority rather than regarded as advisory and often ignored?
- How open are budget processes? How many open budget planning and evaluation sessions are held? How far ahead is notice given of these meetings? Is the notice printed in the newspaper? Are the meetings held at a time when citizens can attend?
- How much explanation of the budget is given at meetings and in documents? Is the language understandable to an ordinary citizen?
- Does the jurisdiction make a concerted effort to involve citizens or make the budget process interesting to them?
- How much publicity is there about the proposed budget?

- Governmental goals for the budget year
- Important activities anticipated in the budget
- Reasons for any changes from the previous year's goals, programs, and appropriation levels
- Any major fiscal policy changes

Using graphics when presenting budget material is always helpful, especially to the general public.

### The Rationale for Open Deliberation

Open deliberation allows for more public participation in the budget process. An open process promotes citizen understanding of government and government understanding of citizens. It brings people together to make choices, builds relationships and trust, and ultimately results in better and long-lasting decisions. Informed groups generally are better than individuals at estimating realistic sustainable solutions, generating alternatives, recalling the past accurately, making judgments about unverifiable issues, and building wide acceptance when necessary. It is generally better to solicit input from citizens prior to the issuance of a budget than after the process has been put far into motion.

Open deliberation gives citizens the ability to:

- Protect their own interests
- Have greater control over government decisions
- Develop an in-depth understanding of the issues
- Understand the complexity of the budget process

Open deliberation gives the government the opportunity to:

- Build trust with citizens and enhance its reputation as a partner that truly works with and on behalf of citizens—not against them
- Build public consensus for the spending plan

Open deliberation, however, also has disadvantages for the government:

- Additional time demands
- Emotional demands
- Potential difficulties of identifying issues irresolvable at the municipal level
- Less apparent control over the outcome

Although excessive openness can result in undue influence from special interest groups and slow the budget process down, it is important to keep the process somewhat open. This can be done by creating citizen committees to represent the interests of the community at large. Contact between the council and special interest groups can be done in a public forum to prevent interest groups from unfairly pressuring council members. The expectation is that open deliberation is a worthwhile effort that will result in a budget that is better understood by government and citizens and better responds to the needs of the community.

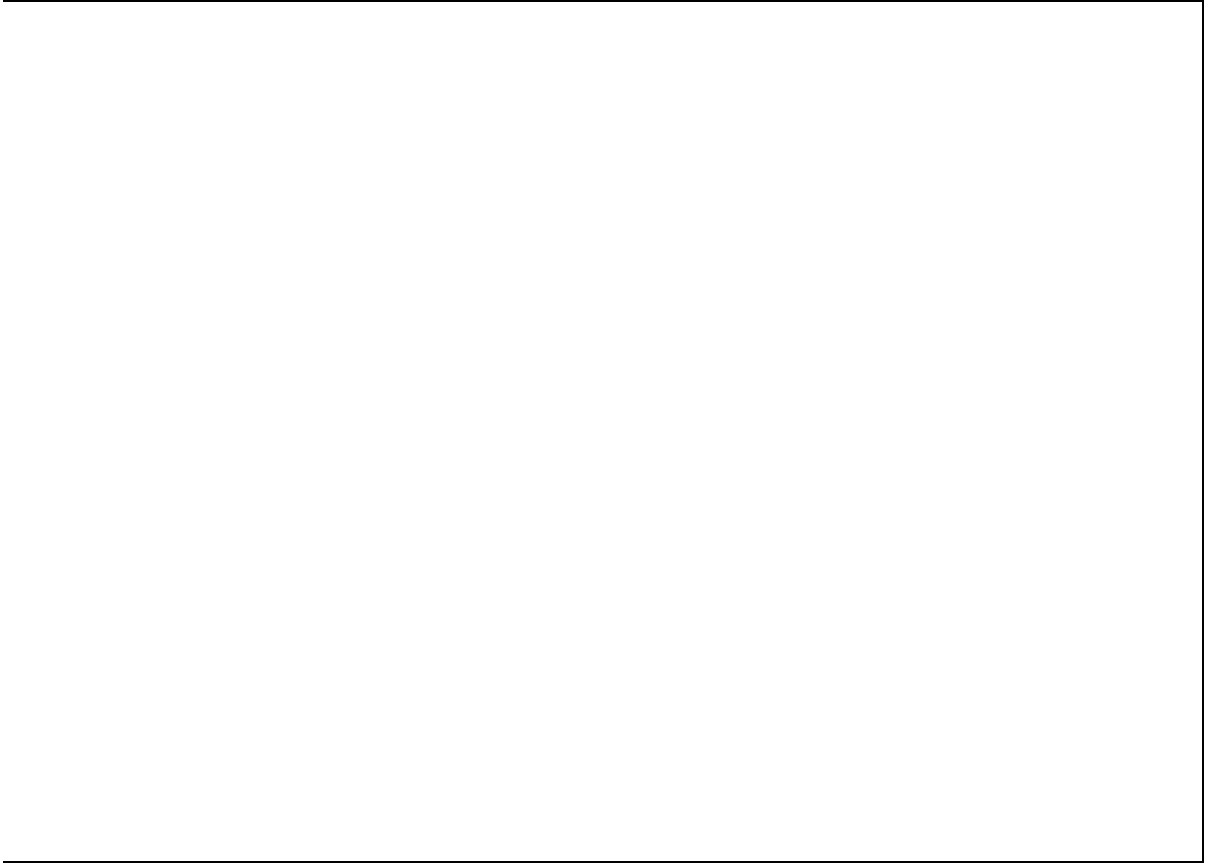
### **Increasing Citizen Involvement**

#### **Methods of Presenting Budget Issues to the Public**

- Household mailing
- Tax bill insert
- Newspaper inserts
- Brochures distributed by service users/clients
- Fliers explaining budget of specific programs.

A comprehensive and proactive approach to citizen involvement is the Tell-Sell-Test-Consult-Join methodology (Exhibit 5-1). This approach to public involvement takes citizens from the “awareness raising” stage to the “active involvement” stage.

**Exhibit 5-1**



## Ensuring Effective Budget Hearings

- Advertise widely with introductory information
- Select times when working people can attend
- Use visual aids to present budget goals for the year and vital information.
- Set up rules of behavior that govern all public hearings.
- Set time limits for individuals' comments.
- Listen to rather than debate with the public.
- Be specific with problems and proposed solutions.
- Explain how the city will consider the public hearing comments.
- Share key program milestones and bench marks.
- Thank citizens for coming and their input.

**The Public Hearing Process**

Public budget briefings held by the municipal council's budget committee are called "hearings." Although there are a variety of ways to conduct the public hearing process, at least one public hearing on the entire budget must be held to allow citizens to voice their opinions to the board. There are several steps the government can take to ensure an effective hearing process (see sidebar). Cities can complement the general hearings with budget briefings and dialogues on issues that concern particular groups of citizen and/or neighborhoods. Cities interested in involving citizens before the deliberation process—in the budget development process—can hold public meetings throughout the year.

A city also can hold an informal "city hall meeting" before the formal hearings to solicit input from the community. Budget staff, department heads, and elected officials are present to engage the public in discussion

and to answer questions. This informal process provides preliminary information to the public while giving staff responsible for the budget immediate feedback on how the public feels about the budget and ultimately the priorities the city has established. Because this is an informal meeting, public concerns are not be addressed thoroughly; the goal is to know what those concerns are so that they can be considered during future planning. These meetings can be broadcast live on television or radio.

In a similar vein, budget officers can take the budget presentation "on the road" to civic organizations, homeowners associations, and service clubs. Cities can also find creative ways to involve interest groups, political parties, or civic groups and allow for expressions of various opinions. For example, a group can be invited to present its views in a "roundtable discussion" prior to a council meeting.

Exhibit 5-2 presents the public hearing phase (Phase B, Part 2) of the Municipality of Razgrad's annual budget calendar. The city's entire budget calendar appears in Chapter 3: Budget Preparation of this manual.



**Exhibit 5-2  
Presentation and Discussion of Draft Budget  
(Municipality of Razgrad)**

Steps	Goals	Participants	Completion Deadline

Present draft budget to municipal councilors	Justifying the content and process of creating the draft	Deputy Mayor for Finance, standing committees or committee chairpersons	Mid November
--	--	---	--------------

Present draft budget to community	To share and discuss the municipality's objectives and how the budget achieves them	Mayor, public boards, non-governmental organizations, etc.	End of November
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Adjust draft	To incorporate public and municipal council opinions and recommendations	Mayor, deputy mayors, and city secretary	Mid December
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Complete final draft	To prepare final version after adoption of annual	Deputy mayor for finance, finance and accounting	Third week of December or within 3 days of national budget act
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The degree of community involvement varies greatly depending on many local factors. Sometimes citizens are not as interested in the process, and opening a forum for involvement remains fairly uncomplicated. At other times, sensitive issues related to tax increases, economic development decisions, or social topics can generate significant interest in the budget. Since these issues may be difficult to anticipate, a regular budget deliberation schedule of about 5 to 7 months is crucial. Exhibit 5-3 presents an example of a budget review and deliberation schedule.

**Exhibit 5-3**  
**Sample Scheduling Sequence**

Months 5-6:	Community process in place to outline issues and the draft priorities
Month 7:	Public hearings on issues and priorities
Month 8:	Municipal council retreat to finalize priorities
Month 7-8:	Citizen commissions and staff prepare draft budgets
Month 9-10:	Mayor proposes budget to council, citizens, commissions, and news media; includes highlights, summary video, budget on city Web site
Month 10-12:	Public hearings, televised work sessions, TV call-in shows, news articles, press round tables, budget information booth at shopping districts, presentations to citizen groups, Internet-based information and chats.
Month 12:	Final public hearings, passage of budget.



## Administration Response

If a government is going to solicit public input, it must be prepared to consider citizen's interests and implement reasonable suggestions. It is important that the municipality have a process for assessing, and considering the information generated from surveys or city meetings. The administration must formally summarize the results of citizen input and make those results public. This not only legitimizes citizen involvement but also creates a public record that can be evaluated over time.

The media can provide an effective interface between the administration and the public. Exhibits 5-4 and 5-5 present suggestions for working with the media.

### Exhibit 5-4

#### Helping Reporters Learn about Local Government

Provide the information in writing if possible.

Provide an informal orientation for every new reporter assigned to cover the government, by providing:

- An organization chart of the administration with **names and office phone numbers** of operational heads
- A list and brief biography of members of the governing board
- A description of the relationship between the administration and the governing board
- A brief description of each department's or agency's responsibilities and functions
- Fact sheets on major programs

Introduce reporters to department heads for informational meetings

Arrange meetings between reporters and the budget director, operational heads, or appropriate person on finances and budgets

Do not assume new reporters are familiar with a program or with local government in general

Approach reporter requests for information or interviews as you would handle such a request from a citizen

Try to state information in a manner the average citizen would understand

For television and radio reporters try to speak in 30-second "sound bites"

Suggest story ideas to reporters, explaining the significance of the story

### Exhibit 5-5

#### Ten Rules that May Help in Working with the Media

Tell the truth.  
 Have the facts or know where to find them.  
 Don't think you can handle or manipulate reporters.  
 Work for understanding rather than persuasion; i.e., fair coverage is a shared goal and information makes the reporter's job easier.  
 Think before you speak.  
 —. Are you the right person to be answering this question?  
 —. Remember that what you say will appear in the papers or on the air.  
 —. Think twice about going off the record.  
 Know what makes news.  
 Know what is involved in the reporting/editing process.  
 Know what the interviewing techniques are.  
 Follow the Open Meetings and Public Records laws.  
 Know how and when to complain about inaccurate reporting.

### ***Guidelines for Budget Presentation<sup>1</sup>***

Although budgetary practices vary considerably among local governments, the same principals generally apply to the production of the budget document. The principal ingredient and guideline for a successful budget document is that it should comprise the following four sections:

- **The Policy Overview.** This section of the budget should articulate budget priorities and goals, link past and future budget activities to the present budget, and disclose the assumptions upon which the budgetary decisions and estimates have been made.
- **Operating Detail.** This is usually the longest section of the budget, and outlines the operational and spending plans for government agencies and programs. The operating detail should meet three main objectives: show the allocation of resources among departments and programs; establish performance objectives and measures; and report prior-year operating results and accomplishments.
- **Financial Summaries.** This section summarizes information contained in the

<sup>2</sup> This section is based on The Best of Governmental Budgeting. A guide to Preparing Budget Documents by Dennis Strachota.

4. Chicago: Government Finance Officers Association.

operating detail section, through five basic types of summaries: consolidated summaries; revenue summaries and analyses; summaries of current expenditures or expenses; debt summaries; and capital spending summaries.

- **Organizational and Community Profiles.** This section describes the internal and external factors that influence a budget: the government's organizational structure and staffing; the government's financial structure and budget process; and the demographic, economic, and cultural features of the community served by the government.

### The Policy Overview

The policy overview section of a budget tells the story behind the numbers by explaining the decisions concerning program, revenue and spending priorities. Most policy overviews contain the following features:

- **Transmittal Letter.** This is a one- or two-page letter which formally conveys the budget document to the governing or legislative body. Although this is not essential, it can be used to summarize key budget decisions or serve as an extensive budget message. In a final budget or budget-in-brief the transmittal letter may also explain changes made to the proposed budget document.
- **Budget Message.** A budget message can either serve as an executive summary for the document, or be comprehensive and satisfy all the objectives of the policy overview. The best budget message, however, always articulate goals and priorities. They describe fiscal and program strategies that address pressing issues and help a government fulfill its mission.
- **Budget Goals and Assumptions.** Even if presented elsewhere in the budget document, budgetary goals and assumptions should still be referenced in the budget message. Goals can be either financial or programmatic in nature, have a short- or long-term focus, and relate to singular programs or to the organization as a whole. The assumptions are the basis for economic and financial projections contained in the document.

## Operating Detail

The operating detail provides information on the agency mission, staffing levels, performance objectives and indicators, expenditure levels, and, possibly, financing sources for each department or program. Standard features of the operating detail include the following:

- **Departmental/Program Mission Statement.** A mission statement describes the functions and activities of each department, and some budgets can include mission statements for both departments and their sub-units.
- **Performance Objectives and Measures.** Performance objectives should be tied directly to organization-wide goals, and detail what departments and programs expect to accomplish during the budget period. Objectives should be specific, measurable, and sensible. For example, the objective of a patrol program could be to increase the number of calls responded to within five minutes from 60 to 70 percent during the budget year. This can be measured quantitatively by the number of calls responded to within five minutes. For a more detailed discussion on performance indicators (see Chapter 2 *The Elements of Service Based Budgeting*).
- **Accomplishments and Status of Objectives.** This information is presented in narrative form and often replaces performance indicators data by providing a progress report on the accomplishments of a particular department or program.
- **Financial Data.** The spending detail for departments and programs—ideally for three years—is the major component of the operating detail. Other information that may be included in the operating detail are revenues and other resource data.
- **Staffing and Organizational Structure.** Since personnel costs are a major portion of local government expenditures, the operating detail should include the level of authorized staff for departments and programs.

## Financial Summaries

This section summarizes the financial information contained in the operating detail. It may also include information not presented elsewhere in the document. Financial summaries can either be consolidated (gross budget presentation, net budget presentation, and enterprise operation) or one of the following types:

- **Revenue and Expenditure Summaries.** These distinguish between different fund types and show greater detail for revenues and expenditures than consolidated summaries.
- **Revenue Summaries.** This shows greater details for revenues and other resources. The two most common types of revenue summaries are summaries of total revenues by broad fund category, and summaries of revenues by fund type.
- **Revenue Source Analysis.** This describes each major source of revenue, including the income, goods, or services from which it is derived, and restrictions on its use. The analysis must also explain the assumptions underlying the budget's revenue estimates, significant revenue trends, and other factors which may affect the revenue base or collections.
- **Expenditure Summaries.** These are consolidated information from the operating detail section, and may use one or more of the following spending classifications: program or service area, department, major object of expenditure, minor object of expenditure, and site (e.g., schools).
- **Capital Spending Summaries.** Many local governments have a separate long-range capital improvement plan and budget. However, information on major capital projects in the budget year should also be included in the operating budget. A capital spending summary should include the following information:
  - A brief description of major capital projects authorized in the budget
  - Budgeted appropriations for the capital projects, including sources of financing
  - A brief description of the capital planning and budgeting process and its relationship to the operating budget
  - The estimated fiscal impact of the capital projects on current and future

operating budgets

- **Debt Summary and Analysis.** Debt has a long-term impact on the budget because it commits current and future funds over the life of a bond issue. Thus financial projections and a narrative analysis of this indebtedness should be provided in the budget.
- **Other Financial Summaries.** Other financial summaries that may be included in this section are:
  - Fund balance analysis: a more detailed table showing beginning and ending balances for all major funds
  - Summary of interfund transfers: which shows the origin and destination of transfers between funds
  - Long-range financial projections: projections of revenue, expenditures, and other financial data over several years
  - Summary of tax rates: which shows current or historical tax rates
  - Summary of budget changes: increases or decreases to the proposed budget made by the governing body

### **Organizational and Community Profiles**

Organizational and community profiles are used to explain internal and external factors that influence the budget. A combination of graphics, statistics, and text can be used to present this section, which should then be updated on an annual or biennial basis. The essential features of an effective profile are as follows:

- **Organizational Chart.** This should show sub-units of government (offices, departments), the hierarchy and relationship of sub-units to one another, and lines of control (responsibility and authority). This helps the reader visualize the structure of government, and relationships within it.
- **Staffing Summaries.** In addition to the personnel or position counts provided in the operating detail, a summary of staffing levels should be provided to ease interdepartmental comparisons. This should include the number of employees or positions by department for several years. In addition to this, the types of positions and salary range can also be provided.
- **Community Profiles and Statistics.** This profiles the community served by the

government, and can include the following categories:

- Brief history of the government or community
- Land area
- Population
- Land use
- Age and racial mix of population
- Major employers
- Unemployment statistics
- Condition of housing stock
- Service statistics

The above information can also be provided through a narrative description as follows:

- **Financial Organization or Structure.** Budgets should identify funds which are included or excluded in the budget. Usually all funds subject to appropriation should be included. Budgets should also explain the basis of budgeting - line item, program, service based, etc.
- **Overview of the Budget Process.** This should describe the process used to prepare, adopt, and implement the operating budget. The budget timetable and key budget participants should also be provided. Finally, the legal basis for the budget, and the process for amending it should also be included.

## The Final Document

### Budget Presentation

It is common practice to prepare a two-volume budget document. Volume I, the final budget, containing summary information, and Volume II containing all of the detailed information for the budget.



The budget document could be one of several volumes, depending on the size and complexity of the proposed budget. Proposed budgets are usually larger, because they contain detailed decision-making information. The final or adopted budget, may be a smaller summary document used to communicate final policies and appropriations. Budget documents have three purposes: to integrate diverse, and sometimes competing, revenue-raising and spending proposals; to encourage debate and thoughtful deliberations over important issues; and to communicate budget decisions in an accurate and clear manner. The earlier four sections have discussed the substantive sections of the budget. It is also important to now present an easy-to-use, and attractive final document. Special features of the final document include the following:

- **Table of Contents and Index.** A table of contents is necessary for all documents greater than 15 pages in length. An index is an alphabetical list of budget topics or terms, and should provide a page number so that the reader can locate topics.
- **Glossary.** A glossary of terms is essential for any document that extensively uses technical and financial terms.
- **Graphs and Other Visuals.** This stimulates the reader's interest, focuses his or her attention, and leads to a better understanding of budget information.
- **Divider Pages or Tabs.** This makes it easier for readers to find particular sections, and will be handier for those who refer to it often.
- **Cover Design.** Budget documents are the most widely disseminated government financial documents. It should therefore be attractively packaged and invite readers to examine its contents.

### ***Budget Adoption***

With the full deliberation by the mayor and municipal council, as well as active input by the public, the city determines its budget priorities and limitations. Final budget adoption (and finalization of local revenues and expenditures responsibilities), however, is largely influenced by the annual State Budget for the Republic of Bulgaria (SBRB) in the following three ways:

- **Shared tax Revenues.** Since 1991, the state budget has regulated the extent to which the tax on the incomes of physical persons (i.e., personal income tax) is shared among state and municipal budgets. The ratio of personal income tax for the state government to that for municipalities has been 1:1 (i.e., one-half goes to the state government and one-half is divided among municipalities) and is not

expected to change. In general, this revenue accounts for nearly 30 percent of the total municipal budget and for 40 percent of municipal own-source revenues.

- **General Purpose and Targeted Subsidies.** The general purpose subsidy should be a simple fund transfer; however, the size of the transfer is often unclear within the SBRB. Once the state budget has been adopted, the general purpose subsidy is transferred to municipalities. The timing of this transfer does not necessarily take into account the cash flow needs of each municipality. For example, in cities where employment is highly seasonal, the transfer of the general purpose subsidy might occur after peak season, placing an excessive burden on the municipal budget.

Targeted subsidies cover 27 percent of a municipality's capital investment expenses. The time frame for making capital expenditures often is set in contracts with external vendors/service providers. This time frame, however, usually is established before a municipality knows when it will receive the targeted subsidy from the central government. A municipality can establish a cash flow management program (discussed in Chapter 6 of this manual) with the Ministry of Finance to help avoid the above problems.

- **Expenditure Priorities.** In 1992, Bulgaria dictated the minimum municipal expenditures for education, health care, and social assistance. In addition, the central government has established relative weights (or priorities) for certain line-item expenditures. Municipalities are required to follow these expenditure priorities when developing their budgets.

### **Adoption of a Municipal Budget**

The standard procedure for drafting and adopting a municipal budget (and mid-year budget adjustments) is set out in Chapter 3 of the Municipal Budgets Act. The main steps of this procedure are as follows:

- Prepare a draft budget after Parliament adopts the annual state budget act
- Submit the draft to the municipal council
- Municipal council committees review the draft
- Subject the draft to a public debate
- Municipal council adopts the final draft budget

- Appropriate revenues and expenditures by quarter and type based on the uniform budget chart of accounts
- Submit the final draft budget to the Chamber of Accounts and the Ministry of Finance for approval

The municipal council has the authority and responsibility to adopt the annual budget. The process and formal voted decision must be transparent and represent the best judgment of the majority of the council. The final budget must give the mayor and the administration sufficient direction and latitude to meet the needs of the city.

As suggested in above, the final budget must specify budget amounts according to a series of national norms and centralized policies, as indicated in Exhibit 5-6. As long as the municipality meets the national allocation and reporting requirements, it can append its own budget requirements on the process and, to a certain degree, the distribution of resources. An additional local requirement can be the clear statements of service and service delivery from every funded department, enterprises and community groups. In fact funding support can be conditioned on positive cooperation.

**Exhibit 5-6**  
**State Requirements of the Final Municipal Budget**

Portion of Budget	Detail Required
-------------------	-----------------

## Budget revenues

- . Own-source revenues, subsidy from the state budget, and any unspent amounts carried forward.
- . Annex on all types of revenues as described in the uniform chart of accounts

Budget expenses

- . Total amount
- . Annex listing expenses by function
- . Annex listing expenses by group—labor, other expenses, and capital investments

Expenditure for capital investments    . Annex describing capital expenditures by function, sites and facilities, and sources of financing



Mayoralties' budget

- .. Total amount
- .. Annex describing the budget by mayoralties, functions, and groups of expenses

Plan accounts of the off-budget      . Annex describing the accounts of the budget units

resources

under the uniform budget chart of accounts

Chart of accounts of the off-budget    . Annex describing the account of each individual fund

resources

under the UBC

Financial accounts of municipal      . Annex describing the account of each individual

enterprises

enterprise

Funds for social welfare and cultural . Size (percent) compared to the funds spent on salaries services



Operating costs for school canteen    . .    Size (percent) compared to the minimum salary for

catering

breakfast and for lunch

Food costs for school canteen      . . Size (percent) compared to the minimum salary for

catering

breakfast and for lunch

Operating costs for dietetic catering    .    Size (percent) compared to actual expenses

Food costs for the baby food centers    .    Size (percent) of the minimum salary per portion

Travel cards for staff employed in      . Size (percent) of total cost travel cards for trips to population centers up to, as well as those more than, 10

the health and educational sector

km away



Travel cards for pensioners using      . Effects (percent) on the municipal budget of lowering

the inner-city public transport

the price of the public transport carrier(s), and others

Expenses for celebrations and  
hosting of guests

.. The limit (in leva) for the municipal council and for staff



## **The Notification**

Once the budget is adopted, the finance department must provide full notification to all funded departments, enterprises, community groups, and the public at large (see Exhibit 5-7). These groups must know not only the final amount of leva appropriated but also the expectations of service delivery in return for the commitment of the resources. This is particularly important if there are significant differences between the draft budget and the final budget. By including the expectations in the letter of notification, the city provides an implicit contract that it will support the services outlined. It is imperative that the city issue an amended notification letter if any changes in the level of commitment occur.

While the strategy for communicating with the public uses many of the same tools displayed in Exhibit 5-2, informing the funded units is direct and detailed. Operational managers must clearly understand what results are expected and what resources are available to achieve these expected results. The following two examples illustrate the level of detail required:

- Primary school 123, in return for the municipal funding of X leva, shall provide Y instruction days and achieve a promotion ratio of 92 percent of all enrolled students.
- The Bela Choral Group, in return for a X-leva subsidy, shall provide Y public concerts with a 90 percent level of ticket sales and Z free concerts for the secondary schools holiday program. In addition, all gross receipts shall be reported to the finance department within 7 days of each conference.

## Sample Notification Letter

### ZGRAD MUNICIPALITY

Ref. 1-00-35

Date: March 10, 1998

East European Regional

Housing Sector Assistance Project

Meeting in session on March 9, 1998, the Municipal Council adopted the budget of Razgrad Municipality for 1998 by Minutes 32 Under Resolution 347.2, in the Example function, the Unit allocated a budgetary obligational authority to a TOTAL amount of '000 leva; of which:

Paragraph 01 Wages and salaries '000 leva

Paragraph 02 Social security '000 leva

Other budget outlays '000 leva

**March 12, 1998**, you are requested to present at Room 407 apportionment of your budget by activities according to a comprehensive budget classification and a quarterly apportionment in thousands of leva, in accordance with the form Budget Classification of revenues and expenditures for 1998, certified by the chief executive officer.

Completion of a Physical Terms Section for each activity by January 1 and December 31, 1998 is mandatory. When apportioning and disbursing budget resources, please comply with the priorities specified in Article 13 (3) of the 1998 National Budget of the Republic of Bulgaria (promulgated in the *Official Gazette* No. 123 of 1997).

The amount of the wage bill is formed on accrual basis from the beginning of the year, proceeding from the number of employees estimated in the budget and the average wage per person as decided by the Municipal Council, according to Article 3 (1) of Council of Ministers Decree No. 14 of 1998, adjusted by the projected wage growth index according to Article 2 (1) of the same Decree.

The rosters of positions and wages should be elaborated in accordance with the requirements of Article 9 (2) of Council of Ministers Decree No. 14 of 1998 and must be presented for submission to the Labor and Wages Department of the Municipal Administration by **March 31, 1998**.

The current implementation of your organization's budget must be organized observing the following conditions:

The resources for welfare and cultural services of the personnel working at municipal public-financed organizations amounts to 3 percent of the wage bill planned and are reported on the basis of the wage bill charged. Disbursement, reporting and utilization of these resources follows the procedure established by Clause 11 of the 1998 National Budget Act and Article 5 of Council of Ministers Decree No. 35 of 1998 on Implementation of the 1998 National Budget Act. Expenditures are shown under Paragraph 12 "Other expenditures."

Transport costs of commuting health-care personnel are reimbursed, as from March 10, 1998 to the amount of:

50 percent of the price of the season ticket for population centers within 10 km from the city;

85 percent of the price of the season ticket for population centers beyond 10 km from the city.

Expenditures are shown under Paragraph 09 "External Services."

The municipality secures the public-financed organization's budgetary obligational authority by a grant in accordance

## 6.0 BUDGET IMPLEMENTATION AND MANAGEMENT

After the budget is adopted and the decisions are communicated to the various stakeholders, the process enters the final phases of implementation and management. Implementing the budget process involves expenditure planning and reporting, transferring funds among budgeted items, position control, monitoring revenues, and monitoring progress towards service objectives. Cost control, cash flow management, and auditing are tools that assist the budget team in managing ongoing activities. It is not a "command" form of management, because by this stage of the budgeting process there should be shared expectations and a high level of agreement.

### *Budget Implementation*

Traditionally, the responsibility for budget implementation rests with the finance department. With the expanded budget team involved in SBB however, each department can contribute to implementing the adopted budget. The budget represents a commitment to provide both resources and a certain level of service. It is the joint responsibility of the finance and operating departments to operate within the budget, with the finance department in a lead role. However, achieving budget service levels is the prime responsibility of operating departments. To effectively monitor the implementation of the budget, the budget officer should:

— Work with departments to establish monthly or quarterly spending forecasts and monitor progress against them;

— Report actual expenditures compared to the detailed budget;

- Review and make recommendations to the legislative body on departmental requests to transfer funds among appropriation items;
- Monitor payroll expenditures;
- Monitor progress toward the achievement of service objectives; and
- Initiate procedures necessary to adjust budgets to reflect changes in revenue availability.

Budget implementation also involves an analysis of budget variation. This is the process of determining how much actual financial results depart from planned results. If there is a variance, the finance department should analyze why the variance occurred (often done by comparing planned and actual consumption, planned and actual unit costs of consumption, and other factors which might explain financial variance), and develop an action plan to restore balance between planned and actual financial results by year end. This should be periodically done for both revenues and expenditures,(quarterly or monthly) based on a careful assessment of when costs will be incurred.

**Expenditure Planning and Reporting.** The requests of departments and enterprises often far exceed the financial resources of the municipality. If the municipality prepares management plans, these plans create expectations for the forthcoming fiscal year. After the budget is adopted, therefore, departments and enterprises must adjust management plans to reflect what can realistically be expected with the funds committed.

Quarterly or monthly projections of expenditures are now necessary, and actual expenditures should then be plotted against these estimates. If the spending rate is higher than anticipated in the original management plan, corrected measures should be adopted immediately. This may involve transferring funds from another activity, revising work plans, reducing the service objective, or decreasing expenditures not essential to maintaining the most critical services. An example of a monthly report comparing expenditures made to the detailed budget is shown below (see Exhibit 6-1). The data should be drawn from the local government's accounting system, and the structure of the report should correspond to the budget classification structure used in the budget document.

**Exhibit 6-1**  
**Monthly Budget Report**

<b>Activity Name:</b> Police Services	<b>Budget Expense this Period</b>	<b>Actual Expense this Period</b>	<b>Variance this Period</b>	<b>Budget Expense Year-to-date</b>	<b>Actual Expense Year-to-date</b>	<b>Variance Year-to-date</b>	<b>Amount Unspent Year-to-date</b>
Patrol	343	310	33	750	725	25	775

Community Service.	250	262	(12)	300	310	(10)	290
<b>Total</b>	<b>593</b>	<b>572</b>	<b>21</b>	<b>1,050</b>	<b>1,035</b>	<b>15</b>	<b>1,065</b>

Source: The Operating Budget. A Guide for Smaller Governments. By Juliet Carol Powdar. Chapter 6: Implementing and Monitoring the Budget, 1996. Chicago: Government Finance Officers Association.

**Transferring Funds Among Budgeted Items.** It is important to ensure that funds are spent only as authorized by the appropriation ordinance. Changes in the spending of funds should be submitted and formally reviewed as amendments to the approved budget. These amendments may include:

- Transfers among budgeted items;
- Increases in budgets resulting from the appropriation of additional funds; and
- Decreases in budgets to avoid budget deficits.

There may be several situations which require a budget transfer: (1) a transfer to departmental operating budgets from reserves for emergencies, or from central budgeted accounts for salary adjustments; (2) a transfer from one department or activity to another due to a change in priorities or objectives; and, (3) a transfer within a department or activity to adjust budget estimates to meet actual operating realities. Budget transfers should be in compliance with a budget transfer policy, which should be established and approved by the legislative body.

**Position Control.** Budget control also involves control over payroll expenditures, which usually makes up a very large percentage of a local budget. The most efficient way to exercise control over these expenditures is through a formal position control system which ensures that each permanent employee is hired for a position that has been approved and budgeted. Also, the rate of pay for the position should be approved by the legislative body in accordance with a locality wide pay plan. Position control includes the following steps:

- Establishing a comprehensive list of jobs (positions) for all departments (a position plan);
- Establishing standard rates of pay for all similar jobs or positions (a pay plan);
- Budgeting funds for approved positions;
- Hiring persons into approved positions; and
- Modifying the position and pay plans in an orderly manner.

**Monitoring Revenues.** Along with expenditures, revenues should also be



monitored, either on a monthly or quarterly basis, in relation to the budget. Actual revenue should be compared to estimated revenues in the budget for the same period. A revenue shortfall may be due to bills not being collected in a timely manner, or because the state government has delayed the release of grant funds or shared revenues. These problems should be identified and corrected where possible. To monitor revenues, the following procedure could be followed:

- For each revenue source, obtain the actual collections by quarter for the past five years;
- Compute the average percent by quarter and adjust for obvious trends;
- Apply average quarterly percent to annual revenue estimates;
- Adjust estimated quarterly revenue flows for major anticipated deviations; and
- Compare actual revenues to estimated revenues to spot possible problem areas.

**Monitoring Progress Towards Service Objectives.** The objective of monitoring expenditures is not only to enforce fiscal control, but also to ensure that planned work is being carried out. Data should be collected and evaluated on service delivery and performance. The budget officer should maintain a close contact with department heads and program managers to discuss project problems and progress.

### ***Budget Management***

Budget management consists of three important tools—cost control, cash management and auditing. Cost control is a sound financial management practice that helps to detect and correct overspending; cash management makes certain that enough money is available on time throughout the year to pay for budgeted expenses; and, auditing is essential to check that proposed expenditures comply with the pertinent statutes, appropriations, allotments, and informal understandings with the legislature.

#### ***Cost Control***

Municipalities must monitor and control budget expenditures for two main reasons: (1) revenues can fall short of projections, and (2) expenditures can exceed projections. Moreover, leaving budget overruns unchecked over the course of a year greatly exacerbates their negative effects. Since municipalities have somewhat more control over costs than revenues, they should closely monitor expenditures. By containing costs, they can help offset shortfalls in revenue sources.

Allocating funds to sectors and departments on a quarterly basis during the budget

year helps to control expenditures. It detects overspending in a timely way and prevents any gaps between estimated and actual costs from widening to the point where correction becomes difficult. Quarterly allocations also foster:

- Department spending within quarterly limits;
- More accurate department planning; and
- Use of quarterly budget projections in the planning phase

Quarterly allocation of the approved budget is a statutory requirement, although it is not always enforced. The local government can choose one of two approaches: (1) sectors and major functional units handle the allocations themselves, or (2) the municipal fiscal authorities and the heads of sectors and functional units jointly conduct the allocation process. The second method helps link municipal funding to service objectives, thus furthering the cause of service-based budgeting. Fiscal authorities can use the “power of the purse strings” to help operational managers focus on serving the citizenry.

To be effective, quarterly allocations must be made in parallel with a cash flow management program (described later) and should be based on analyses of monthly reports measuring actual expenditures against budget projections. The accounting system must be able to generate such reports that utilize existing budget classifications. Reports should contain at least the following information about each expenditure item:

- Amount provided for in the budget;
- Monthly expenditures;
- Expenditures since the beginning of the year;
- Rate of budget implementation (comparison between expenditures made and the budget); and
- Amount of costs not paid.

Examining the rate of budget implementation—that is, comparing budgeted to actual expenditures—must occur periodically and systematically. To ensure consistency among departments, managers and analysts must work together to design the comparative methods. The resulting information helps managers take actions to curb illegal or unjustified overspending. These actions may include:

- Transferring funds from other activities;
- Revising action plans;
- Reviewing service provision targets; and
- Not paying costs irrelevant to the service.

In volatile economic conditions, establishing cost limits may be a preferable form of controlling costs, but not a way of increasing local responsibility. For instance, limiting actual expenditures to 95 percent of the budget protects municipalities against financial problems and imposes stringent control and observance of priorities but it is also very intrusive. Bulgaria first applied this technique in its 1997 State Budget Act, introducing limits of 90 percent and 95 percent of budget-approved expenditure with the remainder allocated if revenues met or exceeded projections. This constituted a form of contingency funding, but would be an anathema to service-based budgeting unless services were also reduced proportionally.

## **Cash Flow Management**

The ultimate objective of a cash flow management program is to increase municipal revenues by investing funds not required for current operating costs. This can help reduce taxes—less money has to be raised if more is earned by the careful use of cash on hand. Cash flow management is an ambitious task demanding:

- Thorough assessment of the current state of cash flows, including their timing and sources;
- Careful study of cash flow trends on the basis of past experience; and
- Expertise with short-term money markets.

A city's cash flow management program should minimize credit and market risks while maintaining a competitive yield. Information on the average yield of investments and total revenue realized from the program should be included in an annual report.

### **■ Establishing Relationships with Bankers**

In the course of managing cash flow, the city will establish a closer working relationship with local and national bankers. This relationship becomes especially important when starting a major capital development project, issuing municipal bonds, or borrowing on a short-term basis. In developing its ties with the banking community, the financial manager must understand that:

- Banks have finite sources of revenue;
- Banks are in business to make a profit; and
- Banks work in a competitive environment.

Banks earn money from three sources. Banks charge service fees, which do not always cover the related costs. Investing deposits further allows banks to generate funds. Finally, banks earn revenue by loaning money at interest rates that exceed the bank's cost of funds. Customer deposits and the services provided to customers are liabilities, while the bank's investments, loans, and service fees are its assets. Among the services banks provide are the following:

- Check clearing;
- Record keeping;
- Credit analysis; and
- Labor and facilities costs.

Banks typically manage their assets and liabilities in order to make the highest profit. If banks cannot generate enough revenue from a customer to cover costs and make a reasonable profit, they will prefer not to deal with that customer. The municipality must identify the banks with which it would like to establish a working relationship. If there are no more than one or two banks within the municipality or if the municipal-owned bank is the only facility, the city should expand its choices by considering banks in the nearest large towns. The National Budget Act for 1998 requires the construction of a list of banks authorized to serve municipal budget accounts. This list must be approved by both the Ministry of Finance and the Bulgarian National Bank.

When choosing a bank, the municipality must consider a number of factors, most importantly:

- The specific services offered and their price;
- The bank's size and reputation;
- The ease of access from city offices;
- The adequacy of the branch network to serve municipal entities; and
- Any advantages of using the same bank as the tax authority.

The final choice should occur through competitive bidding, with long-term requirements made clear to the participating banks.

## ■ Starting a Cash Flow Management Program

**Minimize the Number of Accounts.** The first step in the program is to review each of the city's existing bank accounts to determine which, if any, can be closed. The goal is to keep the number of accounts to a minimum. In reviewing each existing account, the financial manager should determine:

- The reason for its existence;
- Average balance; and
- Source and type of payments to and from the account.

**Accelerate Deposit of Cash Payments.** Once the number of bank accounts is brought to a minimum, the next step is to find ways to deposit cash payments faster. The goal is for funds to be credited to the city's accounts on the same day a taxpayer makes a cash payment. The city should analyze the tax administration's practices and make efforts to convince the tax authorities of the benefits of accelerating the process.

**Establish Payment Procedures and Schedule.** It may be helpful to develop a flow chart of payment procedures to be observed by all heads of departments and services. The more important spending items should be arranged on a preset, regular basis. The wage bill, for example, is budgeted on a monthly or weekly basis. The city should try to introduce some regularity in other payments for services received. Arrangements also should be made for non-recurrent or contingent spending, emphasizing the exceptional nature of such payments. Payments on bills and invoices should be delayed as long as possible within the agreed terms.

**Choose a Time Period.** Once the schedule is made, a time period for the program should be selected. If wages are paid on a monthly basis, the period could be set at 30 days. In this case, all inflow, outflow, and net cash flow projections span a 30-day period. Since wages are the most significant cash payments from a city's budget, choosing a time period that matches wage payment schedules simplifies the program.

**Determine the Number of Cash Flow Periods.** The number of cash flow periods within a year depends on the length of the time period. Since the timing of receipts and outlays do not necessarily match within any single period (even though discrepancies may balance out over several periods), it is recommended that cash flow projections be done on a financial-year basis.

## ■ Estimating Revenues

Once the preliminary work has been completed to establish the cash flow management program, the city should begin estimating revenues, using a tabular form for projections. The purpose of the exercise is to reach a realistic estimate of specific revenue streams for each time period. In most cases, the city must work with the tax authorities that keep the analytical information. Although the information should be specific to the jurisdiction's taxes, fees, and other revenues, some examples of the data used and actions taken are provided below:

### Individual Taxes

- Number of persons employed in the budget and the economic sector
- Number of persons by income bracket
- Wage payment schedules of the city's main employers
- Application of government resolutions concerning periodic pay indexation
- Employers experiencing problems and the size of outstanding wage payments (e.g., delayed because of financial difficulties)
- Application of national government and municipal resolutions concerning periodic pay indexation
- Amount of current tax payments
- Analysis of annual tax returns
- Projected revenue schedules based on previous year

### Corporate Taxes

- Detailed analytical performance indicators
- Comparison of business plan projections with tax inspection findings
- Privatization developments and statutory tax incentives

### Local Fees and Charges

- Administer the fees over which the city has collection responsibilities
- Identify precisely the points of service provision and the related procedures
- Accelerate cash payments
- Develop clear and coherent rules concerning overpaid or inappropriately paid charges

## Transfers

- Become familiar with the method of allocation under the current National Budget Act
- Analyze the timing and proportion of disbursements in previous years, and adjust current year estimates accordingly
- Reach an agreement with Ministry of Finance on a time interval for disbursements to the local budget account in accordance with the existing project contracts and established Ministry of Finance procedures

## Municipal Bonds Revenue

- Develop separate cash flow management programs for each issuance that account for project-specific revenues and expenditures
- Develop specific investment strategy for each issuance

### ■ Estimating Expenditures

Many financial managers find estimating expenditures to be rather easy. Again, a tabular form can be used to project expenditures by future period. Such a form would show:

- **Wages.** As a rule, the frequency of wage payments determines the cash flow projection period. The financial manager also must consider expected payroll increases or decreases and the inflation rate.
- **Withholding Tax on Wages.** Estimates of the amount of withholding tax for each period include the amounts credited to the local budget. This information also should appear in the revenue estimate for the same period and on the same base amount.
- **Debt Service.** The financial manager can determine in advance the funds required and due dates for interest and principal payments to bond holders. If a broker is involved, the estimate must be based on any agreed upon due dates.



- **Capital Expenditure.** A separate expenditures projection, with reference to specific funding sources, must be prepared for each capital development project. The financial manager cannot base estimates on past projects, as the terms vary from case to case. With the help of the relevant officers, the financial manager must become familiar with the details of each development contract.
- **Purchases.** To estimate the amounts spent on purchases (e.g., supplies and equipment), the financial manager may look back to previous periods.
- **Outside Services.** Past experience may provide assistance here, but adjustments should be made for price changes and absorption. Typically, all the utility charges are included in this category.

### **Making Investments**

After preparing the expenditure and revenue estimates for the period, the financial manager subtracts total expenditures (outflow) from total revenue (inflow) for the period to determine net cash flow. If inflow exceeds outflow, the city has a positive cash flow; a negative cash flow results from the reverse. The financial manager also must determine the adequacy of the cash flow. If it is an annual projection, it must be compared with the cash flows resulting from the approved city budget for the year. Although the two may not be directly comparable if a different approach has been used to draft the budget, the “bottom lines” should match fairly closely.

A positive net cash flow for a given period may indicate a short-term investment opportunity. The investment maturity must be scheduled so that earnings become available during any projected negative cash flow periods. In most cases, the dates of concern are paydays and the due dates of other large spending items. A simple form can be used to record accrued (i.e., not received) investment revenue by accounting period.

## ■ The Legal Framework

The legal framework for making investments is detailed in Exhibit 6-2. Given the absence of any special primary legislation and the risk involved in investment activities, the city should make a local enactment rather than rely on the common statutory provisions. The local enactment should feature:

- Definition of the circumstances in which investments would be allowed
- List of appropriate investment instruments
- Investment selection procedure
- Procurement procedure concerning financial services
- Management procedure for the entire investment process
- Objective criteria to ensure the city's financial stability

Exhibit 6-2  
The Legal Framework for Making Investments

Local Self-Government and Local Administration Act (LSGLAA):

Article 21(1.6) defines the city council's budgetary authority

Article 51(4) provides for the investment of cash surpluses in what is termed "economic activity."

Municipal Budgets Act (MBA) Article 6 (2.5) defines interest income as local revenue; Article 40(1) says that by resolution of the city council, a municipality may effect any lawful transactions with Bulgarian banks and with other financial institutions.

## ■ Important Investment Considerations

The municipality must always consider the risk of financial loss in its short-term investment activities. Government securities are usually regarded as an almost zero-risk guaranteed-return investment. A city should avoid high-risk or speculative investments, even when they are legal. For example, cities should

avoid investing in corporate securities on the secondary stock market. In some countries, the law prohibits the investment of taxpayer money in stock market instruments.

Once an investment opportunity has been analyzed in terms of legal restrictions and financial risk, the next step is to determine its liquidity. The liquidity of an investment is the degree to which it can readily be transformed into cash without losing principal or interest. An investment portfolio should always contain some highly liquid instruments to ensure that all outlays are made when due, including outlays not included in the cash flow projection.

Finally, the municipality should look for the highest return/yield that the investment can produce. One should bear in mind that the various instruments often differ in this respect. Generally, the longer the maturity and the lower the liquidity are, the higher the yield will be.

### ■ Short-Term Borrowing

Combining investing with short-term borrowing helps ensure an appropriate cash balance at the end of each period. There are situations in which short-term borrowing to cover certain costs is preferable to using available funds earmarked for other purposes. For example, although a city generally should avoid short-term capital development borrowing, it can borrow to bridge the time between when it decides to issue bonds to finance capital development and when it receives the proceeds from the offering. (Capital projects generally should be funded from accumulated revenues, special government subsidies, or long-term municipal bonds.) In addition, tax revenue fluctuations during the financial year may result in negative cash flows for certain months. Funds from short-term borrowing may finance such cash shortfalls.

### ■ Audit Chamber Comments

The Audit Chamber conducts an annual review of the financial practices of municipalities and delivers its findings on violations of legislation. Exhibit 6-3 gives an overview of the Audit Chamber's functions. Similar independent institutions that present unbiased opinions of municipal funds management have been established in all developed countries. The Audit Chamber's statement carries much weight. Municipalities are likely to include favorable statements in their budgets, while those with negative statements must undertake serious corrective action. It is a good practice for the mayor to present Audit Chamber statements, along with any corrective steps taken to rectify problems, to the municipal council and the public.

#### The 1997 Audit for Razgrad

The 1997 Audit for Razgrad stated that certain violations are reoccurring, that all rental revenues are not collected, and that other examples of control and contract administration should be more tightly handled. The audit provides another set of financial control issues that could be incorporated into the organization of revised budgetary process and fiscal control policies. What is required is a clearer definition of role of and a broader participation by management for all units that receive municipal budget support.

Municipal financial audits are conducted in accordance with certain generally accepted standards. These standards provide reasonable assurance to the public that a municipality's financial statements are free of misstatement. An audit also includes examination of evidence supporting the amounts and disclosures in the financial statements, accounting principles used, and significant estimates made by management in developing financial documents. Auditors may choose to perform additional analyses of more specialized documentation, such as individual fund statements and schedules.



### Exhibit 6-3 The Audit Chamber

#### Legal Framework

The Audit Chamber Act, the Municipal Budgets Act, the State Budget Structure Act

#### Essence and Functions

By law, the Audit Chamber monitors:

- The implementation of municipal budgets in conformity with the law and targets
- The utilization of the budget funds granted to individuals performing economic or non-economic activities
- The operational reporting of the budget revenues and expenditures, reporting of cash implementation, and drafting and submission of quarterly and annual accounting reports
- The fulfillment of the extra-budgetary accounts
- The revenues and expenditures of the nonprofit legal entities and funds established with budget means or guaranteed by the state
- The privatization revenues of the respective funds, as well as their distribution and spending
- The management of the property granted to budget organizations.

In practice, the Audit Chamber performs additional useful functions:

- Advising municipalities facing public finance problems
- Disseminating municipal experience
- Using its experience to prevent violations and correction of ineffective decisions
- Generalizing typical and recurring findings, sometimes encouraging amendments in the legislation
- Motivating for quality work at all levels of local government.

#### Control Functions

The Audit Chamber implements its activities through audits assigned by order of the President of the Audit Chamber. The findings, supported by evidence, are presented in a statement. The individuals who have been subjected to audits may present explanations within 14 days of the date of the submission of the statement. A conclusion is drafted that becomes an integral part of the statement.

The statement of findings is submitted to the Audit Chamber and approved by decision.

The President of the Audit Chamber submits to the Minister of Finance and the municipalities a report on the findings from the audits with proposals for elimination of the established violations, as well as analysis of the reasons and conditions that have brought about these violations. The 1998 report appears in this appendix.

The municipalities are obliged to undertake correction measures within 1 month and inform the Audit Chamber about these steps.

## **APPENDICES**